RISING ECONOMY OF INDIA: HOW CAN NEPAL DRAW ECONOMIC BENEFIT?

A thesis presented to the Faculty of the U.S. Army
Command and General Staff College in partial
fulfillment of the requirements for the
degree

MASTER OF MILITARY ART AND SCIENCE
Strategic Studies

by

SUNIL SUBEDI, MAJOR, NEPAL ARMY
M.A., Tribhuvan University, Kathmandu, Nepal, 2014

Fort Leavenworth, Kansas
2016

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REPORT DOCUMENTATION PAGE

Form Approved
OMB No. 0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. **PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.**

1. REPORT DATE *(DD-MM-YYYY)*	**2. REPORT TYPE**	**3. DATES COVERED** *(From - To)*
10-06-2016	Master's Thesis	AUG 2015 – JUN 2016

4. TITLE AND SUBTITLE

Rising Economy of India: How Can Nepal Draw Economic Benefit?

5a. CONTRACT NUMBER

5b. GRANT NUMBER

5c. PROGRAM ELEMENT NUMBER

6. AUTHOR(S)

Maj Sunil Subedi

5d. PROJECT NUMBER

5e. TASK NUMBER

5f. WORK UNIT NUMBER

7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)

U.S. Army Command and General Staff College
ATTN: ATZL-SWD-GD
Fort Leavenworth, KS 66027-2301

8. PERFORMING ORG REPORT NUMBER

9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES)

10. SPONSOR/MONITOR'S ACRONYM(S)

11. SPONSOR/MONITOR'S REPORT NUMBER(S)

12. DISTRIBUTION / AVAILABILITY STATEMENT

Approved for Public Release; Distribution is Unlimited

13. SUPPLEMENTARY NOTES

14. ABSTRACT

Federal Democratic Republic of Nepal's geographical location has been a geographical handicap as well as strategic opportunity for Nepal. With recent economic progress of both neighbors, China and India, Nepal can now sense opportunities to utilize its geographical location to come out of extreme poverty. However, because of the geographical difficulties, it is not easy for Nepal to benefit as much from China's economic progress, as is from India's. This study focuses on Nepal's possibilities to draw economic benefits from rising economy of India. The study unfolds by determining the status of Indo-Nepal relations based on historical facts and present bilateral relations in order to determine context for further course of actions. The paper digs into opportunities provided by India's economic growth to Nepal from four aspects: India as an energy market, India as a job market, India as a global market of products, and India as a source of FDI (Foreign Direct Investment) and foreign currency. The paper then analyzes resources and capabilities of Nepal and explore the ways and possibilities of Nepal's resources and capabilities to find market in Indian growth needs. The paper also examines impediments that are restricting Nepal from realizing potential benefits and recommends strategy to overcome them.

15. SUBJECT TERMS

Nepal's history, Indo-Nepal Relations, Impact of Indian Economic Growth to Nepal's Economy.

16. SECURITY CLASSIFICATION OF:			**17. LIMITATION OF ABSTRACT**	**18. NUMBER OF PAGES**	**19a. NAME OF RESPONSIBLE PERSON**
a. REPORT	**b. ABSTRACT**	**c. THIS PAGE**			**19b. PHONE NUMBER** *(include area code)*
(U)	(U)	(U)	(U)	120	

Standard Form 298 (Rev. 8-98)
Prescribed by ANSI Std. Z39.18

MASTER OF MILITARY ART AND SCIENCE

THESIS APPROVAL PAGE

Name of Candidate: Maj Sunil Subedi

Thesis Title: Rising Economy of India: How Can Nepal Draw Economic Benefit?

Approved by:

_____, Thesis Committee Chair
Nathaniel Stevenson Jr., MPA

_____, Member
Joseph G.D. Babb, Ph.D.

_____, Member
Gary Hobin, M.A.

Accepted this 10th day of June 2016 by:

_____, Director, Graduate Degree Programs
Robert F. Baumann, Ph.D.

The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

ABSTRACT

RISING ECONOMY OF INDIA: HOW CAN NEPAL DRAW ECONOMIC BENEFIT?, by Major Sunil Subedi, 120 pages.

Federal Democratic Republic of Nepal's geographical location has been a geographical handicap as well as strategic opportunity for Nepal. With recent economic progress of both neighbors, China and India, Nepal can now sense opportunities to utilize its geographical location to come out of extreme poverty. However, because of the geographical difficulties, it is not easy for Nepal to benefit as much from China's economic progress, as is from India's. This study focuses on Nepal's possibilities to draw economic benefits from rising economy of India. The study unfolds by determining the status of Indo-Nepal relations based on historical facts and present bilateral relations in order to determine context for further course of actions. The paper digs into opportunities provided by India's economic growth to Nepal from four aspects: India as an energy market, India as a job market, India as a global market of products, and India as a source of FDI (Foreign Direct Investment) and foreign currency. The paper then analyzes resources and capabilities of Nepal and explore the ways and possibilities of Nepal's resources and capabilities to find market in Indian growth needs. The paper also examines impediments that are restricting Nepal from realizing potential benefits and recommends strategy to overcome them.

ACKNOWLEDGMENTS

This paper, “Rising Economy of India: How Can Nepal Draw Economic Benefit?” would not have been crafted without supervision, guidance, cooperation, and assistance of several individuals. First and foremost, I would like to express my sincere gratitude to Mr. Nathaniel Stevenson Jr., instructor, Department of Joint Interagency and Multinational Operations, Command and General Staff College. It was his scholarly guidance and invaluable suggestions that made this project to this form. Any attempt to express my gratitude to him in words bound to be inadequate.

I am grateful to the members my thesis committee, Dr. Joseph G. D. Babb and Mr. Gary Hobin for sparing their precious time to read my work and provide timely and valuable suggestions. I am also indebted to the Command and General Staff College for providing scholarly environment for professional and academic study.

I am thankful to the staff members of the Combined Arms Research Library, Fort Leavenworth, who have rendered me much assistance in acquiring books through inter-library loan. My sincere thanks also go to Mrs. Venita Krueger, Graduate Degree Program, CGSC, for her assistance in bringing my paper into the right shape.

Last but not least, I am thankful to my wife, Ar. Rakchhya. Your support is tremendous. I thank you a lot for your great understanding and assistance throughout my research work.

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CHAPTER 1

INTRODUCTION

Background

The Federal Democratic Republic of Nepal has a glorious history of being independent and sovereign since its beginnings. The country lies between two of the fastest rising economies of the world; the People's Republic of China and the Republic of India. China lies North of Nepal and India lies to its East, West, and South. The Himalayas separate China from Nepal and there are very few land connections between the two countries. Except for a few all weather passes, most of the border areas remain unsuitable for human travel throughout the year. In contrast to this, Nepal's southern border with India is separated by border pillars erected in plain lands and remains open for smooth travel throughout the year. In addition to this, Nepal's eastern and western border with India, though separated by hilly areas, are also suitable for cross border travel throughout the year. Because of the geographical situation of Nepal, it is compelled to establish stronger ties with India than China.

Today, India is one of the fastest growing economies of the world. As a large emerging economy with a growing middle class, India has captured the attention of developed economies eager to tap into a new market with hundreds of millions of potential consumers. Within Asia, policymakers and private companies alike look to India as a regional market for exports and large scale projects.[1] India is grabbing the

[1] Peresis Khambatta, "The Emerging Indian Economy," Center for Strategic Studies, accessed 10 January 2016, http://csis.org/files/publication/130206_Khambatta_IndiaEmergEcon_Web.pdf.

attention of the world with its continued economic growth. The excitement India's economy has generated lately is due in large part to changing internal and external dynamics. By some estimates, India's economy will grow to be the world's third largest in 2030, with a GDP of close to $30 trillion.[2]

The rising economy of India has offered many opportunities to the rest of the world. India's need for energy has not been adequately met by its domestic supply and offers a good market for energy producers. Labor costs in India is very cheap in comparison to most Western countries, which gives foreign investors opportunities to establish their industries and produce goods at cheaper cost. The newly elected Indian Prime Minister Narendra Modi has launched 'Make in India' program rolling out the red carpet to investors through a string of measures including easier norms and rules aimed at transforming India into a manufacturing hub.[3] India's business communities have warmly welcomed the PM's 'Make in India' program and vowed to provide their full support.[4]

Presently India lacks skilled manpower to meet the demand of its industries and with the "Make in India" program the demand for skilled labor will increase. According to government report of India, around 119 million additional skilled laborers will be required by 24 sectors such as construction, retail, transportation logistics, automobile,

[2] Ibid., vii.

[3] India TV News, "India Inc Welcomes PM's New FDI Approach," 25 September 2014, accessed 16 November 2015, http://www.indiatvnews.com/business/india/india-inc-welcomes-narendra-modi-s-make-in-india-programme-14618.html.

[4] Ibid.

and handloom by 2022.[5] Since it will not be possible for India to meet all those skilled manpower demands by itself, this will offer millions of jobs to skilled workers around the world.

Problem Statement

Nepal has a proud history of never being conquered nor colonized. When it comes to economic development, the country does not have an encouraging record and remains as one of the poorest countries in the world. History has repeatedly shown, that countries with a strong economy tend to dominate the world stage. There is no reason to believe this will not be true for the 21st century; those with strong economies will dominate the world and those with relatively weak economies will suffer. In this context, having a poor economy is the great predicament of Nepal. However, the recent economic boom of both neighboring countries have provided a good omen for the prosperity of Nepal. Nepal should try to realize economic benefit from the progress of both neighbors; however, because of better connectivity and easier geographical access, it will be easier for Nepal to take benefit from the economic progress of India. However, as of today, Nepal has not been able to capitalize upon this opportunity.

Research Question

This research paper will endeavor to answer the primary question: How can Nepal benefit from the economic progress of India? In order to conduct a viable analysis and come to practical conclusions, the following secondary questions will be answered:

[5] The Economic Times, "India will need 119 Million more Skilled Workers by 2022," 10 April 2015, accessed 16 November 2015, http://articles.economictimes.indiatimes.com/2015-04-10/news/61017912_1_sectors-skill-shortage-workforce.

1. What is the status of Nepal's relation with India?

2. What resources and capabilities does Nepal have and can develop that India's economic growth needs?

3. What impedes Nepal from drawing economic benefit from the rising economy of India?

4. What should be Nepal's strategy to overcome those impediments?

Assumptions

This research paper assumes that the economy of India will continue to rise in the foreseeable future and continue to provide opportunities generated from its economic development to the rest of the world.

Scope

The study has focused on the possible opportunities that the rising economy of India offers that Nepal can benefit from. Those opportunities will be analyzed based on the resources and capabilities available with Nepal. The relation between Nepal and India have been focused primarily on economics leaving aside detailed study of other aspects.

Limitations

Because of the busy schedule of the Command and General Staff College, field visit and primary data collection have not been included in research methods. So, the research paper has been based on secondary sources.

Delimitations

Economic relations between countries are generally guided by their national interests that may even change in the near-term and may not be accurately represented.

However, the researcher has attempted to present the most up to date data. This research has not involved any direct engagement with living persons either through interviews, surveys, focus groups, observations or other means. India's rising economy has impacts on various sectors of Nepal; however, this research paper has been limited only on economic sector and focus on possible economic benefits Nepal can draw.

Significance of the study

This paper has studied the economic rise India and has suggested how Nepal can benefit from it. This study will be useful for all readers who wish to understand the current economic relations between Nepal and India. This study will be of particular significance to all those who are willing to learn about Nepal's possible strategy for economic development. Data and analysis presented in this paper will be a worthwhile study for policy makers, foreign investors and to individual who desire to incorporate the views expressed in this paper in policy making, investments, and personal knowledge enrichment.

CHAPTER 2

LITERATURE REVIEW

Introduction

Literature for this research have been reviewed in three parts in accordance with the secondary research questions it has raised. Each part consists of different types of secondary sources of information; including but not limited to books, research papers, online articles, journals, government publications, political speeches.

Status of Indo-Nepal Relations

This section of the review of literature deals with the documents that contain useful information regarding Indo-Nepal relations. There are many published books, journals, research papers, and articles that talk about Indo-Nepal relations. Most of these sources analyze Indo-Nepal relations based on treaties and agreements signed between these two countries and major events and incidences occurred in their relations.

Dr. Bishnu Pathak, in his article "Nepal-India Relations: Open Secret Diplomacy," writes about the implication of the Treaty of Sugauli of 1816, the Treaty of Peace and Friendship of 1950, the 1965 Arms Assistance Agreement, and the 1996 Mahakali Treaty for the Nepal-India relationship. Dr. Pathak has independently analyzed all the important treaties between India and Nepal and provided his observation in regards to their impacts to Nepal. According to Dr. Pathak, most of the treaties are unequal, placing Nepal in an unfavorable situation. These treaties for the most part have provided considerable leverage to India to exert its influence in Nepal.

Mahwish Hafeez in "Nepal Prime Minister's visit to New Delhi." Focus on Nepal's efforts to attract Indian investment in Nepal. He writes, Nepal's Prime Minister Madhav Kumar Nepal assured Indian businessmen that his government would take every possible step to enforce a security plan to protect investments and uninterrupted manufacturing operations, besides providing a "feel-at-home" environment for Indian entrepreneurs during his visit to India in 8 August 2009. He further argues that PM Nepal's visit was particularly important because, it came in the wake of uncomfortable relations between India and Nepal. The Maoist government that preceded PM Nepal in Nepal had uncomfortable relations with India because of their attempt to increase relations with China.

Indian Prime Minister Narendra Modi in his address to Nepal's Parliament on 3 August 2014 reiterated the Centuries long Indo-Nepal strong relations that have moved forward not with mere documents but through the hearts of the people. He appreciated the collective Nepalese effort in leaving *Yuddha* (war) and moving towards *Buddha* (peace) in reference to Nepal's recently ended "Decade-Long Insurgency."[6] As Nepal is already on the path to sustain peace, he suggested that Nepal focus on development and make full utilization of its resources. He assured India's full support in Nepal's infrastructure and capability development and also vowed to buy all the excess energy generated by Nepal.

[6] The Communist Party of Nepal (Maoist), led by Pushpa Kamal Dahal (Prachanda), started a 'People's War' (Maoist Insurgency in Nepal) on 13 February 1994 with the intention of deposing the existing government and replacing the royal parliamentary system with a 'People's Republic'. The Decade-long Maoist insurgency came to an end as the government and rebels signed the Comprehensive Peace Accord on 21 November 2006. Nepal: Conflict Profile, 2013, accessed 28 January 2016, http://www.insightonconflict.org/conflicts/nepal/conflict-profile/.

Nepal and Bhutan Country Studies, edited by Andrea Matles Savada, clearly explains India's increased influence over Nepal throughout the 1950s. However, at the same time, Nepal's dissatisfaction with India's growing influence began to emerge, and overtures to China were initiated as a counterweight to India.[7] The book further details that, following the 1962 Sino-Indian border war, the relationship between Kathmandu and New Delhi thawed significantly. The significance of this book is its presentation of facts about Nepal's relations with India and China. It discusses India's policy reaction to Nepal when Nepal expanded its relations with China in order to counter India's growing influence, and China's looking for opportunities to safeguard its interest and counter India's primacy in Nepal through the period 1950 to 1990.[8]

John Whelpton's, *A History of Nepal*, focuses on Nepal's history of the period since the overthrow of the Rana family autocracy in 1950-51. Whelpton vividly portrays Nepal as a country of extraordinary contrasts, which has been constantly buffeted throughout history by China and India. He further comments on Nepal's difficulty in balancing the interests of India and China in its foreign policy and India's influence in Nepal. He also details India close ties with Nepal's leading political party, the Nepali Congress, throughout the history of Nepal's political parties. The book explains the deepening crisis in Nepal during the period 1999-2003.[9]

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[7] Andrea Matles Savada, ed., *Nepal and Bhutan Country Studies* (Washington, DC: Federal Research Division of Congress, 1993), 180.

[8] Ibid., 186-187.

[9] John Whelpton, *A History of Nepal* (New York: Cambridge University Press, 2005), 208-225.

The book, *Nepal: Year of Decision* by D.P. Kumar, explains that the year 1950 marked the turning point in the history of Nepal when King Tribhuvan, joined the commoners in a "revolution" and liberated the country from the Rana regime with the help of India. He further explains that the main planks of Nepal's foreign policy in the past, ever since King Mahendra took power by dismantling the Parliamentary system in 1960, has been to maintain a balance between India and China, and seek Chinese sympathy when he felt his position threatened by the democratic parties whom he distrusted as being sympathetic with India. King Mahendra received support from China, all through his regime from 1960 to 1972.[10] The book further explains that China continued to show great interest in helping Nepal economically and provided substantial aid in the years following the Sino-Indian war of 1962. The book also examines the impact of the war on Nepal's relation with India and China.

Ranjit Thapa, in his research paper, *Nepal's Strategic Future: Following India, or China, or Middle Road*, examines various aspects of bilateral and trilateral relations among Nepal, India, and China. The author has carried out parallel studies of Nepal's relationship with China and India in order to make comparison and draw conclusion for Nepal to take side with. He eventually concludes that Nepal should not unevenly court either of the countries and follow a balanced approach to achieve strategic goals.

In his research paper, *Rising India: The Political and Economic Effects on the Future of Nepal*, Manoj Thapa provides insight into India's increasing economy. He examines India's increasing regional and global influence and analyzes how that can be

[10] D. P. Kumar, *Nepal: Year of Decision* (New Delhi: Vikas Publishing House, 1980).

beneficial for its smaller neighbors in South Asia. The author also identifies Nepal's internal challenges that can possibly hinder Nepal's ability to benefit from its neighbor's progress. According to his viewpoint, consensus among major political parties on major national issues can significantly lower Nepal's problems. In addition to that, he also focuses on important contribution that India's ability and determination can provide in regional stability and growth especially because most of the smaller neighbors of India are going through internal turmoil.

Summary of Literature on Indo-Nepal Relations

The literature review suggest that Indo-Nepal relations are very unique for several reasons: they share an open border allowing unrestricted cross border travel without official documents; people of both countries have exclusive rights to own property in each other's territory and join one another's government services without restrictions, and the people across the border are of the same ethnic origin. Marital relations among the people living on either side of the border are common. More so, around fifty thousand Nepalese are presently working in the Indian Army as a part of Gorkha Regiment. Similarly, hundreds of thousands of Nepalese are working in India and Thousands of Indians are working in Nepal.

As per another point of view presented in the literature, Indo-Nepal relations have not always been cordial and have suffered many ups and downs. Indo-Nepal relations experience difficulties especially when Nepal leans towards China or when Nepal's internal decisions are against India's national interests. It also suggests that, relations at the peoples' level are little influenced by relations at the political level. Because of the

vague nature of the relations between the two countries, it will be easier to understand, if the relations are divided into different time frames and studied in detail.

India's Growth Needs and Nepal's Resources and Capabilities

This part of the literature review deals with the documents that give information regarding demands created in various sectors of India by their economic rise and also examines Nepal's resources and capabilities that can have demand in India.

The article, "the Art of Survival: Policy Choices for Nepal" written by Dev Raj Dahal examines the policies that Nepal should adopt to establish herself in international arena as a credible sovereign nation. He analyzes Nepal's possibilities to develop her economy by briefly comparing her resources to likely market provided by immediate neighbors. The paper also talks about geo-strategic advantages of Nepal's geographical location, Nepal's historical legacies, and independent identity and suggest balancing strategies for Nepal. In order to suggest balancing strategy for Nepal, he gives brief account of remarks made by Chinese, Indian, and some Western leaders and analyzes varying interests of foreign powers in Nepal.[11]

In the book, *Does the Elephant Dance?* (2011), David M. Malone especially defines the foreign policy evolution of India. The author analyzes the specifics of India's policy within its South Asian neighborhood. The author also gives details of evolution of India's economic growth by diving in different time frames. He explains, how the economic policies India had adopted during early 1990's have worked positively not only

[11] Dev Raj Dahal, "The Art of Survival: Policy Choices for Nepal," *Dhaulagiri Journal of Sociology and Anthropology* 5 (2011): 31-48.

in contributing India's GDP but also significantly drawing world attention and FDIs (Foreign Direct Investment) in India. The book also talks about India's concern in Nepal's internal politics that could lead to possible rift in bilateral relations. In addition to that, the book also writes about the discrepancies on Nepalese side regarding political relations between two countries and its impact on their economic relations.[12]

In the book *Nepal's National Interests* (2011) edited by Tomislav Delinic and Nischal N. Pandey, Madhukar SJB Rana in the article, "Economics in the National Interest," states a debate and dialogue on the economics of National interest. He argues that there is a dire need for the politicians, planners and academicians, together with the private sector, to jointly set the economic agenda for the nation's interest. He visualizes the various economic agendas that would be suitable for Nepal's national interest and strongly opposes the reliance on foreign aid. In moving away from paradigm of aid-led economy he suggests 12 strategic agendas based on Nepal's resources and potentials and also recommends national vision, national mission, and national goals that Nepal should strive for.[13]

Kalam and Rajan's *India 2020 a Vision for the New Millennium* attempts to explain India's economic and scientific policies and plan to achieve "developed" status by 2020.[14] This book has also given very important strategic economic plans that India

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[12] David M. Malone, *Does the Elephant Dance?* (New Delhi, Oxford University Press, 2011).

[13] Madhukar SJB Rana, "Economics in the National Interest," in *Nepal's National Interests*, ed. Tomislav Delinic and Nischal N. Pandey (Kathmandu: Centre for South Asian Studies, 2011).

[14] A. P. J. Abdul Kalam and Y. S. Rajan, *India 2020 a Vision for the New Millennium* (New Delhi: Penguin Books, 1998).

needs to adopt for at least next twenty years to achieve its strategic aspirations. It does not cover other elements of national power such as diplomacy and politics. Additionally, Kalam and Pillai's book *Envisioning an Empowered Nation* examines the importance of technology for India to achieve its strategic interests focusing on how the technology can be used in agriculture, healthcare, economy and strategic sectors.[15]

White paper on *the Current Economic Situation and Immediate Way Forward 2015* gives account of the deteriorating current economic situation of situation of Nepal. The paper has mainly identified the impact of the two major earthquakes[16] of 2015 and blockade of the border entry points with India[17] as primary inhibitors in achieving anticipated economic growth rate. The paper also analyzes the overall impacts of the devastating earthquakes and the blockade to Nepal and gives out government priorities as reconstruction efforts move forward. As the paper has identified, the government investment will be concentrated in food security, hydro-electricity, alternative energy, strategic infrastructure, tourism infrastructure, education, health in order to make

[15] A. P. J. Abdul Kalam and A. Sivasthanu Pillai, *Envisioning an Empowered Nation* (New Delhi: Tata McGraw-Hill Publishing Company, 2004).

[16] Nepal was hit by two major earthquakes in 2015. On 25 April, the country was hit by 7.8 Richter scale and on 12 May by 7.3 Richter scale. Together these two earthquakes killed more than 9000 people and caused economic damage worth one third of its GDP.

[17] Immediately after the promulgation of Nepal's Constitution on 20 September 2015, Nepal faced economic blockade in most of its border entry points with India. India never officially accepted the blockade. Blockade mysteriously lifted in February 2016 as it was started in September 2015.

livelihood of people more easy and normal and to accelerate socio-economic development.[18]

Economic Survey, Fiscal Year 2014-15 published by the government of Nepal gives the detailed account of sector-wise growth of various sectors of Nepal. The survey presents data regarding anticipated and actual growth rate of every sector, identifies major economic challenges of the country, and shows government efforts in connection with identified challenges. The survey also compares growth rate of Nepal to global growth rate as well as growth rate of the South Asian region.

Nepal Government Policy and Program 2015-16 explains that maximum utilization of domestic labor and resources will be focused while carrying out the reconstruction efforts. It further says, while prioritizing the national need of the country, the hydropower development master-plans in the Koshi, Gandaki, Karnali, and Mahakali River basins will be updated for obtaining optimum benefits as per the integrated management and river-basin concept of the water resource sector. While reviewing the policies and programs with the goal of graduating Nepal from the status of a least developed country to that of a developing country by 2022, the program explains, Vision 2030 will be formulated and implemented to bring Nepal to the standard of a middle income state by 2030.[19]

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[18] Bishnu Prasad Poudel, *White Paper on the Current Economic Situation and Immediate Way Forward* (Ministry of Finance: 2015), accessed 20 February 2016, http://mof.gov.np/uploads/document/file/White_papaer_final_20151125100100.pdf.

[19] Government of Nepal, "Nepal Government Policy and Program 2015-16," 8 July 2015, accessed 20 February 2016, http://arkonetwork.com/news/nepal/nepal-government-policy-and-programme-2015-16-2073/.

In his article, *Economic Policy Dimension of India's International Strategy* Ajay Shah writes, the rise of India into a position of some significance on the international stage has caught most observers, including most Indians, by surprise because they achieved 4.2 times increment in GDP in 15 years from 1994-95 to 2009-10. Although he anticipates India's continued economic growth in the near future, he suggests some measures that the government of India should take to ensure the continuation of the growth. He has suggests India to achieve deep integration into the world economy by focusing policy agenda on four components i.e. goods and services, capital, people, and ideas.[20]

Devika Sharma in her article "Energy in India's National Security Strategy" focuses on the vital importance of energy to every country and explains that when countries are not independent in energy they required to meet domestic consumption as well as growth requirement, it becomes the security concern of the countries. She explains that energy gives higher bargaining power to energy exporting country over importing country even if, latter is an emerging power. Since India is an emerging power as well as energy importing country, the energy diplomacy has become one of the most important agendas of India's foreign relations in the recent past. In an effort to sustain economic growth, India needs more energy which it attempts to get through increased

[20] Ajay Shah, "Economic Policy Dimension of India's International Strategy," in *Grand Strategy for India 2020 and Beyond,* ed. Krishnappa Venkatshamy and Princy George (New Delhi: Institute for Defense Studies and Analyzes, 2012).

domestic production, as well as exploring new energy destinations.[21] The article identifies Nepal as one of the energy import destinations for India.

The Institute of Peace and Conflict Studies (IPCS) published an analysis of the changing Indo-Nepal relations in an article entitled "A New Dawn in India-Nepal Relation? Prachanda Visit to Nepal." This analysis discusses diplomatic and economic options for India in relation to Nepal and recommends India realign this relationship to include greater liberty for Nepal to choose its own foreign and defense policy. The IPCS suggests that India should reassess the *Peace and Friendship Treaty* (1950), and provide economic assistance to Nepal in areas such as water resources, tourism and infrastructure development.[22]

India and the Global Economy, edited by Husain Haqqani examines various aspects of Indian economy in comparison to global economy. It discusses the challenges India faces and the policies that can be implemented to enhance innovation in the Indian economy, highlights the problem faced by India's healthcare sector, and suggests cohesive set of reforms to encourage investment in manufacturing sector. The paper also puts forth a number of solutions to liberalize infrastructure development sector, discuss the opportunities for cooperation between the United States and India, gives out policy prescriptions to enhance competition and efficiency in India's energy sector, and locates

[21] Devika Sharma, "Energy in India's National Security Strategy," in *Grand Strategy for India 2020 and Beyond*, ed. Krishnappa Venkatshamy and Princy George (New Delhi, Institute for Defense Studies and Analyzes, 2012).

[22] Oliver Housden, "A New Dawn in India-Nepal Relation? Prachanda Visit to India," Institute for Peace and Conflict Studies, 12 October 2008, accessed 20 February 2016, http://www.ipcs.org/article/nepal/a-new-dawn-in-india-nepal-relations-prachandas-visit-to-2703.html.

a framework to bridge the skills gap in India where the state and the private sector work together to boost the capabilities of citizens entering the workforce in the near future.[23]

Government of Bihar, Economic Survey 2014-15 gives an overview of economy of Indian state of Bihar which shares physical border with Nepal. The economic growth Bihar had achieved in the recent past is very encouraging for Nepal. From 2005-06 to 2009-10, Gross State Domestic Product (GSDP) at constant prices grew at annual rate of 10.2 percent. Growth rate of agriculture and allied sectors are also encouraging since share of Bihar in agro-based industries in India almost doubled in six years between 2006 and 2012. In addition to that, the growth Bihar has achieved in infrastructure development is also encouraging.[24]

The journal article, "Energy Consumption, Economic Growth and Financial Development: Exploring the Empirical Linkages for India" by Mantu Kumar Mahalik and Hrushikesh Mallick investigates the relationship between energy consumption, economic growth and financial development in India by using the annual data for the period 1971-2009. The paper examines India's share of global energy consumption and predicts the structure of global energy consumption in the near future. The article suggests the policymakers in emerging economies like India to emphasize in designing an innovative mechanism for effective utilization of energy sources for different uses in general but for industrial uses in particular as industry which greatly relies on energy use

[23] Husain Haqqani, *India and the Global Economy* (New Delhi: Hudson Institute, 2014).

[24] Government of Bihar, *Economic Survey 2014-15*, 2015, accessed 18 March 2016, http://finance.bih.nic.in/Documents/Reports/Economic-Survey-2015-EN.pdf.

has the distinct and significant potential of transforming a nation's growth both in terms of higher output and employment.[25]

In journal article, "Management of Eight 'Ja' for Economic Development of Nepal," Durga D Poudel proposes a theoretical framework based on sustainable development and management of Eight "Ja"'—Nepali letter "Ja", Jal (water), Jamin (land). Jungle (forest), Jadibuti (medicinal and aromatic plants), Jansakti (manpower), ianawar (animals), Jarajur'i (plants), and Jalabayu (climate) referred to as Asta-Ja in the Nepali language for economic development and management of Nepal. The article discusses about each of these 'Ja' and argues that through this framework, Nepal can sustainably manage, conserve, harness, and utilize her tremendous amount of natural resources, achieve fast-paced economic development, built a sustainable, equitable, and just society, and enhance environmental quality in order to uplift the Nepalese economy from its current level to the level of one of the richest nations within a couple of decades.[26]

Summary of Literature on India's Growth Needs and Nepal's Resources and Capabilities

The summary of literatures mentioned above suggest that India's economy will continue to rise in the near future. The growth of Indian economy has and will continue to have demand for enormous energy, skilled labors, and materials. As India is one of the

[25] Mantu Kumar Mahalik and Hrushikesh Mallick, "Energy Consumption, Economic Growth and Financial Development: Exploring the Empirical Linkages for India," *The Journal of Developing Areas* 48, no. 4 (2014): 139-159.

[26] Durga D. Poudel, "Management of Eight 'Ja' for Economic Development of Nepal," *Journal of Comparative International Management* 11, no. 1 (June 2008).

energy importing countries, it will continue to look for varied energy sources. In addition, India is home to more than a billion people and naturally is a huge market. All these development and growth needs of India will offer other countries opportunities to exploit.

The literature that deals with Nepal's natural resources, economic and foreign policies, and human capital show that Nepal has tremendous natural resources and possibilities to benefit from India's economic progress. These literatures suggest that Nepal can and should be able to generate potential energy and educate human capital to compete in global market, and establish cordial relations with India to exploit the opportunities to benefit from the energy-hungry neighbor.

Impediments to Nepal's Economic Development

This part of the literature review deals with the secondary resources that provides information regarding obstacles that impede Nepal from taking benefits from India's economic growth.

In the book, *Does the Elephant Dance?* (2011), David M. Malone analyzes the bilateral relations between India and Nepal and writes about some of the reasons why India and Nepal have not been able to exploit the potential mutual benefits of their relations. He identifies India's inability to understand Nepal's sensitivity and uniqueness and not behaving towards them in a way they feel to be most appropriate. He also writes about Nepalese suspicions of Indian intentions, especially in regards to unequal mutual treaties between two countries, as one of the major impediments that is preventing Nepal from capitalizing on the huge energy-hungry economy next door.

Dr. Balkrishna Subedi in his journal article, "Factor's Affecting Nepal's Economic Development," identifies the various factors ranging from natural resources to

national policies that have impact on economic development of any country. Subsequently, he focuses on development scenario of Nepal by giving historical background of Nepal's economic development. He briefly compares Nepal's economic targets with actual economic performances and identifies various factors that played roles against the achievement of economic development targets. In doing so, he has identified both economic and non-economic factors which affect the economic development of Nepal and has particularly focused on the importance of good governance in maximizing outputs of all these factors.[27]

The article, "Development Issues of Nepal" by Naresh Nepal analyzes Nepal's inability to improve economic condition despite the planned development efforts during last the four and half decades. He identifies various sectors of Nepal that have direct impact on economic development of Nepal and analyzes the issues present in those sectors. His findings give main focus to ensuring good governance that can ensure an environment conductive to foreign investments.[28]

A diagnostic study by Yurendra Basnett, Giles Henley, John Howell, Harry Jones, Alberto Lemma, and Posh Raj Pande, *Structural economic transformation in Nepal,* submitted to DFID (Department for International Development), Nepal examines various aspects of the Nepalese economy. These authors analyze why Nepal continues to lag behind comparable countries in foreign investment, industrial growth and investments in productive assets. The analysis identifies the high cost of transport and energy, coupled

[27] Balkrishna Subedi, "Factor's Affecting Nepal's Economic Development," *Prashasan, the Nepalese Journal of Public Administration.*

[28] Naresh Nepal, "Development Issues of Nepal," accessed 27 February 2016, http://www.hshimpo.com/jp/Nepal.PDF.

with an adverse business environment that discourages productive enterprises, as factors that hamper growth and hinders development potential. This detailed study evaluates the constraints to economic growth in Nepal, evolving politics and its implications to economic growth, and coordination issues. It also studies sector-wide performances of different sector, their constraints, and gives program recommendations to these sectors.[29]

An analysis presented to the Batten School, the University of Virginia, *Developing Nepal's Hydroelectric Resources: Policy Alternatives* by Madeline Bergner analyzes the hydroelectric resources of Nepal. The paper regards Nepal's current electricity supply as insufficient, unreliable, and expensive. The report attributes these problems to, high transmission and distribution losses, piecemeal expansion of the national grid, high cost of power purchase agreements, inefficiencies at the Nepal Electricity Authority, and underutilization of existing capacity. This analysis compares current demand and supply of electricity in Nepal to identify shortfall and considers several alternatives to address the imbalance between supply and demand for electricity given feasibility and cost constraints. Ultimately the report recommends pursuing micro-hydroelectric development while taking political steps to effectively build up small, medium, and large-scale projects in the long term.[30]

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[29] Yurendra Basnett et al., *Structural Economic Transformation in Nepal* (London: Overseas Development Institute, 2014).

[30] Madeline Bergner, "Developing Nepal's Hydroelectric Resources: Policy Alternatives," Batten School, the University of Virginia, accessed 27 February 2016, http://www.stimson.org/images/uploads/research-pdfs/Developing_Nepals_Hydroelectric_Resources_-_Policy_Alternatives.pdf.

Summary of Literature on Impediments to Nepal's Economic Development

The literature mentioned in this section suggests that Nepal has been striving to achieve economic development ever since it established relations with other countries. It also suggest that, Nepal has always been a victim of political instability and has never witnessed a government complete a five year term in parliament. Nepal's impediments in achieving economic development have mainly been: political instability, lack of good governance, corruption, lack of good economic policies, geographic difficulties, fluctuating relations with neighbors etc.

CHAPTER 3

RESEARCH METHODOLOGY

This chapter outlines the research methodology used to obtain and analyze data and information regarding the possibilities and methods by which Nepal can realize economic benefit from the rising economy of India.

This research paper is based on qualitative analysis of the data and information obtained through secondary sources. It is an academic research and the method used for data collection is a document-based review. It follows a descriptive study and focuses on creating a detailed picture by identifying, obtaining, describing and analyzing available documents, published government policies, speeches-statements by government key leaders, and other views related to the research problem.

The primary research question of this research paper is; how can Nepal draw economic benefit from the rising economy of India? In order to answer this research question, this paper identifies, obtains, and analyzes data and information that answer the secondary research questions. These secondary questions are: what is the status of Nepal's relations with India? What resources does Nepal have and can it develop that have market in India? What impedes Nepal from developing them? And what should be Nepal's strategy to overcome those impediments?

In order to find out the status of Indo-Nepal relations, the relations have been divided into three parts covering different time frames. First part analyzes the relations until 1951 when democracy was declared for the first time in Nepal, second part examines relations between 1951 and 2006 when monarchy was abolished from Nepal, and third part focuses on relations after 2006. The data and information to answer this

question has been obtained through published books, published copies of bilateral treaties and agreements, previous research papers on related topic, government websites of both countries, foreign policy documents of both countries, and various online sources.

To answer the second subordinate question, the growing demands created in various sectors by rising Indian economy has been analyzed in connection to Nepal's capabilities and resources to fulfill those demands. It has also included an analysis of the resources and capabilities present in Nepal that may not have demand in India but Nepal can possibly create the demand. While examining demands created by the rising Indian economy in various sectors, emphasis has been put on Indian states that share border with Nepal. These data and information has been obtained through published government and private sector reports of both countries.

The third subordinate question has addressed the challenges and impediments that Nepal faces in materializing the possibilities of economic benefit. The data and information to answer this question, has been collected through published books, articles, previous research papers, journals and online sources.

Analysis of all the data and information has been conducted subjectively to analyze opportunities offered by rising Indian economy to Nepal in order to recommend the strategy that Nepal should follow to realize the economic benefit.

CHAPTER 4

INDO-NEPAL RELATIONS

Status of Indo-Nepal Relations

Variously described as a buffer state or a bridge between India and China, the two giants of Asia, or as a small landlocked country in the lap of Himalayas, Nepal is bounded by India on three sides and by china to the north. It is a small country with a small area but holds a significant position between these two rapidly growing economies. Nepal holds historical and cultural ties with both India and China from ancient times. Nepal however was never away from India, even during the days of East India Company which made several inroads into Nepal. Nepal always practiced the art of balancing its interests between China and India. She remains far from the heartland of China and lies close to Indian plains and is mainly dependent on India for its access to the world outside.[31] Due to its position as a buffer state between China and India, Nepal is forced to maintain a precarious diplomatic balance in handling its relationships between these two giant neighbors.[32] Maintaining good balance between these two neighbors is important as well as challenging because their own mutual relations have been up and down since their independence in the late 1940s. Their relations reached the lowest ebb in the early 1960s, when a border dispute turned into a short-lived war in 1962.[33] Nepal has its importance to

[31] S. C. Bhatt, *Nepal, India and China, A Study of Treaty Relations* (New Delhi: Gyan Publishing House, 1996), 29.

[32] Manoj Thapa, "Rising India: The Political and Economic Effects on the Future of Nepal" (Master's thesis, Command and General Staff College, 2010).

[33] Qasim Hameedy, "Sino-Indian War 1962–Where Do India and China Stand Today?" (Master's thesis, Command and General Staff College, 2013).

both China and India. For China, Nepal shares a border with Tibet; China does not want anything to happen in Nepal that could add negative consequences to the ongoing Tibetan problem. And because of its geographical location and connections to Tibet and China, Nepal has always been strategically important for India as well.[34]

Nepal shares mutual relations with India since centuries. In the past both countries have gone through various comfortable/uncomfortable situations which have directly and indirectly impacted on their relations. For easier understanding of this fluctuating Indo-Nepal relationship, it is easier to examine these relations in three parts: Indo-Nepal relations up to year 1950, the relations from 1951 to 2006, and the relations after 2006. The time frames are based on historic events relating to Nepal.

Indo-Nepal Relations Up to 1950

Nepal's relationship with India prior to 1950 was based on the 1816 Treaty of Sugauli, and the 1923 Treaty of Peace and Friendship concluded with the British East India Company in India and Great Britain, respectively. Nepal fought a war with the British East India Company from 1814 to 1816 for a brief period that checked a Nepalese drive for westwards expansion.[35] A peace treaty, 'Treaty of Sugauli' formally signed by Nepal in March 1816 included territorial concessions by which Nepal lost almost one-

[34] Christian Wagner, "Promotion of Democracy and Foreign Policy in India" (German Institute for International and Security Studies, Berlin, October 2009), accessed 2 January 2016, http://www.swp-berlin.org/en/publications/swp-research-papers/swp-research-paper-detail/article/indiens_aussenpolitik_demokratiefoerderung.html.

[35] Lawrence James, *Raj: The Making and Unmaking of British India* (London: Little Brown, 1997), 73.

third of its territory on the east, south, and the west.[36] The treaty also compelled Nepal to seek arbitration of the British Government in case any differences arise between Nepal and Sikkim.[37] Sugauli has been called an unequal treaty, where Nepal only lost but the British Empire gained a huge territorial advantage, despite the equality, mutual friendliness, and understanding language within the treaty.[38]

The 'Treaty of Sugauli' remained the basis of the relationship until the Treaty of Friendship and Peace was signed in December 1923. This treaty enhanced the relationship between Nepal and the British Raj until 1947. In view of longstanding friendly relations that included, Nepal sending troops to India to help Britain maintain control, the British government agreed that Nepal would be free to import goods and military hardware from and through India, which was restricted under the Treaty of 1816.[39]

India achieved independence from the British in 1947. Even after achieving independence, India applied the same policy to Nepal as India had been subjected to under British rule. New Delhi has historically assumed that it should take responsibility to provide security to Nepal from external aggression. This is evident from Prime

[36] Bishnu Pathak, *Nepal-India Relations: Open Secret Diplomacy* (Kathmandu: Conflict Study Center, 2009), 2.

[37] Sikkim was a Himalayan Kingdom before it was absorbed into India in 1974.

[38] Pathak, 2.

[39] Surya P. Subedi, *Dynamics of Foreign Policy and Law: A Study of Indo-Nepal Relations* (New Delhi: Oxford University Press, 2005), 189.

Minister Nehru's statement in 1950, which noted that an invasion of Nepal would inevitably threaten the safety of India.[40]

Nepal and India signed the Peace and Friendship Treaty in 1950, which allowed India to play an influential role in Nepal's defense and foreign affairs. Although the 1950 treaty with Nepal was concluded with the head of the oligarchic Rana Regime[41] in its last days in power, it has survived to this day.[42] The Peace and Friendship Treaty has been a huge matter of discussion in political arena in Nepal in regards to its provisions. The treaty certainly has some provisions that can help maintain close ties between two countries but the way it came to an effect and some of the provisions it contained has made this treaty more and more unwelcoming in Nepal. It was named the Peace and Friendship Treaty, but signed between Ambassador to Nepal from Government of India and Prime Minister of Nepal on 31 July 1950. The treaty allows freedom of movement of people and goods of both nations and puts Nepal under India's close observation on defense and foreign affairs by stating "Any arms, ammunition or warlike material and equipment necessary for the security of Nepal that the Government of Nepal may import through the territory of India shall be so imported with the assistance and agreement of the Government of India."[43]

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[40] Jaswant Singh, *Defending India* (Chennai: Macmillan India, 1999), 54.

[41] The Rana regime was an autocratic and extended family rule in Nepal from 1846 to 1951, in which the actual kings of Nepal were effectively hostages of the Ranas' palace guard. The political revolution of November 1950 ended this autocratic regime. Beginning in 1951, Nepal experienced a "dawn of democracy".

[42] Subedi, 274.

[43] Pathak, 3.

Analysis of Indo-Nepal Relations up to 1950

Indo-Nepal relations until 1950 were mainly based on British interests in Nepal. Some important treaties such as, 'Treaty of Sugauli-1816', 'Treaty of Friendship and Peace-1923', and 'Indo-Nepal Treaty of Peace and Friendship-1950' signed between the two governments helped regulate the mutual relationship. However, Nepal being the smaller and weaker state did not have much to influence the provisions of these treaties. These treaties on one hand helped recognize the sovereignty of Nepal, but on other hand brought some unequal and even humiliating provisions to effect. Even more disappointing aspect of 'Indo-Nepal Treaty of Peace and Friendship-1950' is that, it has not been modified despite several informal talks at different times between the prime ministers of Nepal and India to revise it according to the needs, demands, and interests of the people. Instead of taking steps to revise the treaty, a senior Indian politician once made a very controversial statement against the sovereignty of Nepal. In an interview to News Today, a senior leader of the Bharatiya Janata Party (BJP) and a minister of state for External Affairs K. R. Malkani astonished the Nepalese people when he stated that India's founding Prime Minister Jawaharlal Nehru should have accepted the accession of Nepal into India in the 1950s when it was offered by King Tribhuvan.[44] Due to such controversial statements of leaders, many Nepalese question India's intentions. The senior political leaders of both countries should take measures to ensure that no such provocative comments are made from authorized personnel. Media should also play their part by not giving space to such aggravating remarks.

[44] Ibid., 4.

Indo-Nepal Relations between 1951 and 2006

From the beginning of its independence, India was worried that Nepal would "lean" towards China and eventually would pose a security threat to India. A friendly relationship with the newly-independent India was formally established by concluding a Treaty of Peace and Friendship in July 1950. The relationship during the 1950s was also shaped by the establishment of a Communist government in China in October 1949. After the occupation of Tibet in 1951, China stated that "Tibet is China's palm and Nepal, Bhutan, Sikkim, Ladakh, and the Northeast Frontier Agency of Assam are the five fingers. Now that palm has been restored to China, the fingers should go with it."[45] To mitigate this threat, India became intimately involved in Nepal's 1951 political movement in an effort to cultivate a political and socio-economic system favorable to New Delhi.[46] India's influence was manifested in its efforts to pressure the political movement of 1951 and to bring the Rana monarchy and the Nepali Congress to an agreement ending the 104-year-old Rana dynasty reign. India negotiated a compromise (the Delhi Settlement) between the monarchy and the political parties.[47]

Nepal's relations with India further developed under a new regime when the hereditary Rana regime was abolished, and the king's power was reinstated by the active political involvement of India in February 1951.[48] Subsequently, the relations were

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[45] John Rowland, *A History of Sino-Indian Relations: Hostile Co-existence* (Princeton: D. Van Nostrand Company, 1967), 146.

[46] Thapa, 50.

[47] Wagner, 13.

[48] Rowland, 144.

developed in economic and military areas as well. The Nepal-India Economic Cooperation Program was launched in 1951to supplement the efforts of the Government of Nepal in national development. As described by the Indian Embassy in Kathmandu, "To give a concrete shape to this vision of development cooperation, the Government of India set up the Indian Aid Mission in Kathmandu in 1954.[49] Military relations developed when an Indian military mission[50] was established in Nepal in 1952, to train the Nepalese Army, and Indian security check posts were established along Nepal's northern areas bordering Tibet in 1954.[51] The relations between India and Nepal started going sour in the beginning 1950s as India continued hegemonic efforts to compel Nepal to make policy choices in India's best interests. In the first half of the 1950s, India used her ambassador in Kathmandu and advisor in the royal palace to influence Nepalese politics.[52] Nepal could not control the activities of Indian diplomatic personnel who were concerned with ensuring the fragile government of Kathmandu conformed to New Delhi's intentions.[53]

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[49] Ranjit Thapa, "Nepal's Strategic Future: Following India, or China, or Middle Road" (Master's thesis, Command and General Staff College, 2010), 43.

[50] India sent a group of almost 600 military personnel in 1952 at the request of the Government of Nepal to train and reorganize the Royal Nepalese Army. The mission gradually began to become involved in the civil service and police force and began to monitor the Nepal-China border. In 1954, India forced Nepal to sign a memorandum between the two countries, which effectively allowed India to establish security posts near the northern border in Nepal (contrary to the "cooperative" spirit of the agreement). The Government of Nepal saw this final action as undermining the relationship between Nepal and China and the mission was subsequently withdrawn in 1969.

[51] Kumar, *Nepal: Year of Decision*, 198.

[52] Wagner, 12.

[53] M. Thapa, 51.

It deteriorated further in the years following King Mahendra's accession to the throne in 1955, after the death of his father, King Tribhuwan. The first parliamentary elections were held in February 1959, but King Mahendra aborted the democratic experiment, and took full control of the state into his own hands in December 1960.[54] Unlike the Previous King and political leaders of Nepal, King Mahendra tried to develop closer ties with China with the aim to reduce Nepal's dependence on India. In the meantime worsening relations between India and China led to the Sino-India War in 1962.

The Sino-Indian War of 1962 affected Nepal-Indian relations as well when Nepal and India concluded an Arms Assistance Agreement in 1965.[55] The agreement made India a major supplier of military hardware to the Nepalese Army. India also agreed to maintain and replace the equipment of Nepalese Army. In 1969, relations became stressful when Nepal asked India to withdraw Indian security check posts stationed in Nepal, and demanded the abrogation of the 1950 treaty.[56] India reluctantly withdrew the security check post, but no visible action was taken regarding the treaty.

Nepal strengthened economic relations with India by signing a Treaty of Trade and Transit in August 1971. However, those relations became stressful after a few years when Nepal demanded separate treaties for trade and transit. In the mid-1970s, Nepal pressed for substantial amendments to the 1971 Trade and Transit Treaty, which was due

[54] Whelpton, *A History of Nepal*, 86.

[55] Subedi, 9.

[56] Kumar, 198.

to expire in 1976.[57]The amendments that Nepal demanded did not take place; but India continued their economic assistance to Nepal. Over the next decade, the relationship between India and Nepal continued to improve at a slow pace.

In 1975, King Birendra Bir Bikram Shah Dev proposed that Nepal be recognized internationally as a "zone of peace."[58] In essence it was only an extension of Nepal's genuine desire to live in peace following its firm belief that absence of peace will delay, make more difficult, and even deform its development just as a world without peace jeopardize traditional independence. Nepal certainly wanted all countries to recognize it as a "zone of peace"; however it was India, who the Nepalese government wanted most to recognize it. But India did not show any interest; it believed that this proposal, if accepted, would involve certain limitations for Indian foreign policy in South Asia. India's reluctance towards acceptance of this proposal; Mr. N. Jayapalan in his book 'Foreign Policy of India' writes that India has to take a clear stand on this issue in the near future.[59]

Nepal-India relations deteriorated in 1988. In 1978, India agreed to have separate trade and transit treaties, satisfying a long-term Nepalese demand, but in 1988, when the two treaties were up for renewal, India insisted on negotiating a single unified treaty in addition to an agreement on unauthorized trade, which Nepal saw as a deliberate attempt to strangle its economy. Nepal's refusal to accommodate India's wishes on the transit

[57] Savada, 181.

[58] Ibid.

[59] N. Jayapalan, *Foreign Policy of India* (Chennai: Atlantic Publishers and Distributors, 2001), 408.

treaty caused India to call for a single trade and transit treaty.[60] Thereafter, Nepal took a hard line position that led to a serious crisis in India-Nepal relations.[61]

After two extensions, the two treaties expired on March 23, 1989, resulting in a virtual Indian economic blockade of Nepal that lasted until late April 1990. Although economic issues were a major factor in the two countries' confrontation, Indian dissatisfaction with Nepal's 1988 acquisition of Chinese weaponry played an important role.[62] New Delhi always suspected Nepal's inclination towards China; they perceived the arms purchase as an indication of Kathmandu's intent to build a military relationship with Beijing. India linked it with violation of the 1950 treaty and letters exchanged in 1959 and 1965, which included Nepal in India's security zone and precluded arms purchases without India's approval. India linked security with economic relations and insisted on reviewing India-Nepal relations as a whole. Nepal had to back down after worsening economic conditions led to a change in Nepal's political system, in which the king was forced to institute a parliamentary democracy.[63] The new government, formed with India-backed up political change, sought quick restoration of relations with India.

Several other developments took place in the Nepal-India relationship in the post 1990 period. Indian Prime Minister Chandrasekhar visited Nepal in February 1991, and announced his government's assistance to Nepal in transportation, flood control and some

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[60] James Heitzman and Robert L. Worden, eds., *India: A Country Study* (Washington: GPO for the Library of Congress, 1995), accessed 30 January 2016, http://countrystudies.us/india/126.html.

[61] R. Thapa, 34.

[62] Heitzman and Worden.

[63] Ibid.

other projects.[64] The trade and transit treaties were revised. Again in October 1992, the Indian Prime Minister P. V. Narashima Rao visited Nepal, and emphasized that Nepal would be the first beneficiary of India's liberalization policy. In 1994, Nepal's Prime Minister Man Mohan Adhikari proposed to India to change the Treaty of 1950, but he expressed that, "Nepal was totally in support of India's security concern, and Nepalese territory would not be used for anti-India activities."[65]

Nepal maintained diplomatic, informational, economic, and military relations with India throughout the 'Maoist Insurgency'. In the beginning of the insurgency, although, the Maoist were anti-Indian by ideology and in practice, they later received support from India.[66] On 1 February 2005, when King Gyanendra imposed direct rule in Nepal, India did not fully support this because India felt that it was done without getting formal consent from the Indian establishment.[67] When the people's movement started from 6-24 April 2006 against the King's direct rule, India did not encourage the people's movement because India was determined to support the three-pillar theory, i.e., parliamentary parties, the Maoist, and the former King Gyanendra.[68]

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[64] Bhawna Pokharna, *India-China Relations: Dimensions and Perspectives* (New Delhi: New Century Publications, 2009), 169.

[65] Ibid.

[66] Saubhagya Shah, "Himalayan People's War: Nepal's Maoist Rebellion," in *A Himalayan Red Herring? Maoist Revolution in the Shadow of the Legacy Raj*, ed. Michael Hutt (Bloomington: Indiana University Press, 2004), 210.

[67] Pathak, 10.

[68] Ibid., 9.

India played an instrumental role in concluding the 12-point Agreement, which mainstreamed the Maoists in the political process by ending 10 years of armed conflict and led to the elections in 2008.[69] India's instrumental role also paved way for signing of historic 'Comprehensive Peace Agreement' between the Government of Nepal and Communist Party of Nepal (Maoist) and bringing the armed conflict to formal end.

Analysis of Indo-Nepal Relations between 1951 and 2006

This era of Indo-Nepal relations were influenced mainly by two factors: frequent political changes in Nepal and impact of security concerns to India created by situations in Nepal. Of the two, frequent political changes in Nepal largely restricted Nepal to have a single powerful authority that can represent Nepal for a longer time and bargain with India in aspects of Nepal's national interests. Most of the time, political powers of Nepal, initiated attempts to change unequal treaties between the two countries; but before their efforts materialized, they were no more in power.

On the other hand, India sees possible threats to India's security that might arise from or through Nepal. India seems to have found themselves faced with difficult choices in Nepal. In one hand, any constructive attempt by India to salvage the situation in Nepal through proactive involvement is likely to be interpreted as unnecessary intervention in the internal affairs of Nepal. On the other hand, passive indifference to developments in

[69] Nihar R. Nayak, "Impending Crisis in Nepal," Institute for Defence Studies and Analysis, accessed 31 January 2016, http://www.idsa.in/idsacomments/Impending CrisisinNepal_nnayak_290410.

Nepal will be misconstrued as shirking of responsibility by observers at home and abroad. In the final analysis, India cannot ignore developments in Nepal.[70]

Indo-Nepal Relations After 2006

After the peaceful conclusion of 10 years long insurgency, Nepal saw another major political change when Nepal formally abolished Monarchy in May 2008 with the resolution passed from the Constituent Assembly. The resolution passed by 560 votes with only four against stated that Nepal will become "an independent, indivisible, sovereign, and secular and an inclusive democratic republic nation."[71] Nepal's dealings with India during 1950 to 2006 were more guided by the monarchial system. The relationship of Nepal with India entered into a new era after the political change of 2007-2008. India proudly claims its instrumental role in bringing the political change in Nepal according to the desire of Nepalese people.[72]

In the aftermath of the changed political setting, Nepal appeared keen to strengthen its diplomatic relations with India and China. The Policies and Programs of the Government of Nepal announced for the fiscal year 2009-2010, states that "friendly and cordial relations with neighboring countries, particularly with India and China will be

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[70] Ibid.

[71] Thomas Bell, "Nepal Abolishes Monarchy as King Gyanendra given Fortnight to Vacate Palace," *The Telegraph*, 28 May 2008, accessed 7 February 2016, http://www.telegraph.co.uk/news/worldnews/asia/nepal/2044579/Nepal-abolishes-monarchy-as-King-Gyanendra-given-fortnight-to-vacate-palace.html.

[72] R. Thapa, 94.

further strengthened." The policy further states that, "the Nepalese territory will not be allowed to be used against any neighboring and friendly countries."[73]

The political change was not going to have much effect for India in relation to managing its relationship with Nepal because India had been exercising its dominance through the political parties in government since the multi-party democracy established in 1990. The Indian establishment has succeeded in keeping almost all of the major political parties of Nepal within its sphere of influence. India had been maintaining a good relationship with an old political party of Nepal, the Nepali Congress since 1950. Another major party, the Nepal Communist Party-United Marxist Leninist has also entered under the same sphere since the beginning of the multi-party democratic era in 1990. The intra-party and inter-party conflicts have been characterized as major hurdles to the rise in power for the political parties in Nepal, due to which, various segments of the political parties have been reaching out to gain Indian support, either covertly or overtly, and the case has not remained new to the Maoist too.

From the Chinese perspective, it seemed that the situation brought by the political changes have made it difficult for China to manage its relations with Nepal, because it has been maintaining relationships through the monarchy for the past four decades. In that kind of situation, some important factors like, India-oriented major political parties of Nepal, the dominant role of India in Nepal's political change, and the rise of the Maoist as one of the major political forces through the CA election, would have encouraged China to develop stronger ties with the Maoist government in the aftermath of the political changes. China would have visualized a larger scale of "free Tibetan

[73] R. Thapa, 95.

movement" in Kathmandu on the occasion of 50th anniversary of the "free Tibet movement," and the international implication of the movement just a few months before the opening of Beijing Olympics in August 2008. And another reason may be the development of the covert relationship between the Maoist and the Communist party of China to muster enough support to the Maoist government, politically and economically.[74]

Increased Chinese activities and influences in Nepal have always been troublesome for India. Given the scope of Chinese activities in Nepal, in a short duration and on a scale larger than during the period of insurgency, and even larger than before the insurgency, it indicates that the Maoist might have succeeded in winning Chinese' confidence and support. For China too, in order to ensure its "one China policy," from the territory close to fragile Tibetan heartland and location of the Dalai Lama and fueled by its belief of India's likely role to encourage "free Tibetan movement" in Nepal, might have increased the need to look for a political power vis-à-vis shared ideology who could safeguard her interests in Nepal. The security dilemmas perceived by the Chinese establishment and the Maoist, looking for greater support to their government tuned to accommodate their interest.[75] The Maoists' immediate need to extend relationships with China would have also been encouraged by the growing Indian attitudes towards the Maoist immediately after the CA election. India never expected that the Maoist would emerge as the largest party in the CA elections.[76]

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[74] R. Thapa, 96.

[75] Ibid., 97.

[76] Hafeez.

Between the periods from 1996 to 2007, given the range of the Maoist policies, it became very hard to identify their exact intention towards India and China until 2008. In contrast to previously established pattern, Prime Minister Prachanda visited China ahead of India after he assumed office. The Indians perceived Prime Minister Prachanda's visit to China as China's rise in India's periphery and the subcontinent's shifting balance of power in China's favor. Although the Maoist exploited Indian cooperation to come to power, they had not left their initial stand of abrogating the 1950 treaty. Moreover, the hardline anti-Indian sentiments could not be washed away overnight. Prachanda, when he paid an official visit to India as Prime Minister in September 2008, raised this issue and agreed with India's Prime Minister to "review, adjust, and update" the 1950 treaty and other agreements while giving due recognition to the special features of the bilateral relationship.[77]

India was also not very happy with the Maoist continuous insistence on integrating Maoist combatants into the Nepalese Army. That was evident in the Indian insistence that the "professional character" of the Nepal Army needs to be preserved.[78] Cold relations between the Maoist of Nepal and India reached its peak when India backed the Chief of Army Staff of Nepalese Army to remain in office when the Maoist Government decided to replace him with his deputy. In the aftermath of the failed attempt to relieve Chief of Army Staff of Nepalese Army, Prachanda resigned; his resignation paved way for the traditional powers of Nepalese politics to form government. What followed after his resignation until today is the series of short lived governments causing

[77] Nayak.

[78] Hafeez.

more instability in Nepal. During this period, there have been some events and incidents that have significant impact in Indo-Nepal relations.

On 21 October 2011, Nepal signed BIPPA (Bilateral Investment Protection and Promotion Agreement) with India which seeks to promote and protect investments from either country in the territory of the other country with a view to increasing bilateral investment. The agreement requires each country to encourage and create favorable conditions for investors of the other country to make investments in its territory and to admit investments in accordance with its laws. Nepal will now have to treat Indian companies at par with the national ones. Article 6 of BIPPA has provisions for compensation to investors if their investments suffer losses owing to war, armed conflict and state of emergency. "Such investors shall be accorded treatment by the host country, no less than the treatment accorded to its own investors or investors of any third state. Any payment made under this Article shall be freely transferable."[79]

Soon after assuming office, Indian Prime Minister, Narendra Modi, visited Nepal in 3-4 August 2014. It was the first visit in 17 years by the Prime Minister of India to Nepal. The visit marked a new beginning in Indo-Nepal relations. The Prime Minister expressed his commitment to Nepal's development and promised to take all necessary steps to take the relations into a new height. Moreover, with repeated emphasis on sovereignty and assurance of non-interference in internal affairs of Nepal, he made a successful attempt to win the hearts and minds of the Nepalese people and dispelling India's image as a hegemonic power to a certain extent. Prime Minister Modi showed his

[79] Sajha, "What is Bilateral Investment Protection and Promotion Agreement (BIPPA) Between India and Nepal?," 22 October 2011, accessed 7 February 2016, http://sajha.com/sajha/html/index.cfm?threadid=93934.

willingness to revise the 1950 Treaty of Peace and Friendship, and clearly stated that "India is ready to consider suggestions from government of Nepal, if any, to review the treaty."[80]

As a part of an agreement reached during the visit of Prime Minister Modi, Power Trade Agreement (PTA) was signed between Nepal and India on 21 October 2014. The agreement aims at enhancing the friendly relations and mutual trust between Nepal and India through increased cooperation in the field of transmission interconnection, grid connectivity and power trade. It facilitates governments, public and private enterprises in planning and construction of interconnection facilities and power trade. The Agreement will remain in effect for twenty five years and thereafter renews automatically unless one of the parties decide to discontinue with prior notice of three months.[81] It is widely believed that this much awaited agreement will have huge impact on Nepal's energy sector and help Nepal exploit its potential as it secures markets for Nepal's excess power production.

A 7.8-magnitude quake struck Nepal on Saturday 25 April 2015, flattening large parts of the capital Kathmandu and causing devastation across the nation. India was the first country to respond, bringing in relief materials within hours of the earthquake. The first flight from India was dispatched with relief material within four hours of the quake and there were nonstop sorties of aircraft carrying 550 tons of relief material. The Indian Army operated 13 helicopters from Kathmandu and Pokhara and 16 teams of the

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[80] Amit Kumar, *Indo-Nepal Relations: A New Beginning* (New Delhi: Indian Council of World Affairs, 2014), 1.

[81] Ministry of Enery, "Agreement between the Government of Nepal and the Government of the Republic of India on Electric Power Trade, Cross-Border Transmission Interconnection and Grid Connectivity," 21 October 2014, accessed 7 February 2016, http://www.moen.gov.np/pdf_files/PTA-English-21-Oct-2014.pdf.

National Disaster Reaction Force, comprising over 700 trained personnel, were deployed. Additionally, 18 army engineering teams were deployed, the Indian Army set up three field hospitals and the Air Force deployed a rapid action team.[82] India not only contributed in the rescue effort but also led from the front in the reconstruction effort by pledging USD one billion in assistance for Nepal's massive reconstruction program.[83] Even though, it was a time of national grief for Nepal, India's promptness and dedication in assisting Nepal during the earthquake brought happiness to many Nepali faces and helped take Indo-Nepal relations to a higher level.

Indo-Nepal relations were heading towards a very positive direction until the passage of the much awaited constitution in Nepal. Immediately after promulgation of the constitution, the Indian government of Prime Minister Narendra Modi expressed its displeasure at Nepal's constitution, a position made clear in a series of statements issued by the Ministry of External Affairs (MEA) in New Delhi. Citing MEA sources, Indian Express even circulated a seven-point demand for amendments to the constitution, within days of its promulgation. Nepalese people, who were still struggling to come out of the crises left by two massive earthquakes, were now confronted with another humanitarian crisis, this time due to a blockade at a crucial crossing on the border with India, which has halted oil and other essential supplies to their landlocked country. The blockade,

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[82] First Post, "Nepal Earthquake: Kathmandu Welcomes and Thanks India for Rescue Operations, Says UN," 27 May 2015, accessed 7 February 2016, http://www.firstpost.com/world/nepal-earthquake-kathmandu-welcomes-thanks-india-rescue-operations-says-un-2264854.html.

[83] Indian Express, "India Pledges USD 1 Billion Aid for Nepal's Reconstruction Program," 25 June 2015, accessed 7 February 2016, http://indianexpress.com/article/india/india-others/india-pledges-usd-1-billion-aid-for-nepals-reconstruction-programme/.

which Nepal's government blames on India has consistently been denied by India pointing finger towards Nepal's inability to address the demands of its people and giving its people reasons to adopt a blockade of crucial entry points between India and Nepal.[84] People of Nepal widely believed that a major reason for the disaster was an unofficial blockade imposed by the Indian government and supported by the ethnic Madhesis. As evidenced by the protests that followed the blockade, "blockade is fueling anti-India sentiment across the country, barring Madhesh. This growing aversion to India is not just a social phenomenon, it is also becoming a political reality."[85] It led many to demand closer ties with Beijing and to call for the reopening of northern trade routes into China across the Himalayas, which were damaged in the earthquakes.[86]

Analysis of Indo-Nepal Relations After 2006

While there can be no doubts that Nepal shares special relations with India, warmth of bilateral relations between these countries have not been consistently special. The examples of the recent past show that it does not take time for bilateral relations to reach to zero from zenith. Indian Prime Minister Narendra Modi's visit to Nepal, his address to Nepal's parliament, Power Trade Agreement, and India's support during the earthquake took Indo-Nepal relations to zenith. But it did not even take one complete

[84] Hemant Ojha, "The India-Nepal Crisis,"27 November 2015, accessed 7 February 2016, http://thediplomat.com/2015/11/the-india-nepal-crisis/.

[85] Vishal Arora, "R.I.P., India's Influence in Nepal," *The Diplomat*, 25 November 2015, accessed 7 February 2016, http://thediplomat.com/2015/11/r-i-p-indias-influence-in-nepal/.

[86] Nolan Peterson, "Blockade of Nepal sets of Anti-India Protests," *Newsweek*, 28 November 2015, accessed 7 February 2016, http://www.newsweek.com/blockade-nepal-sets-anti-indian-protests-399160.

year to turn the things around and take it to the level much lower than where it started a year before.

Based on the analysis of the Indo-Nepal relations of past sixty five years, it is not possible to term it ‘Positive’ or ‘Negative’ as it keeps fluctuating. Thus, this research paper regards Indo-Nepal relations as ‘Oscillating’.

Why Indo-Nepal relations matter?

The oscillating nature of Indo-Nepal relations has direct impact on Nepal’s ability to benefit from the economic progress of India. Nepal is a rich country in terms natural resources. It has potential to generate power that far exceeds her domestic needs and can serve her neighboring countries as well. Nepal is also a rich source of rare herbs of medicinal value. It also has many places of religious and touristic value. But all the possibilities of Nepal’s economic development that plan to take benefit from India’s economic development or target India as a market have to cross the hurdle of Indian national interests. It has been clear time and again that India will support Nepal’s development need or let Nepal peacefully achieve her goals only when India is able to influence the process as well as the output, and is assured that the activities taking place in Nepal do not let any foreign powers increase their influence in Nepal that negates India’s interests.

Indian response to Nepal’s historical constitution clearly indicates that, India is more concerned about their own interests than the progress of Nepal. On the other hand, India is always worried about China’s influence in Nepal. Whenever Nepal tried to lean towards China, India responded with ways to punish Nepal. India’s response towards Nepal’s proximity with China is largely due to Nepal’s geographic location. India has a

bitter experience with China from a security point of view and does not want China to increase its influence across the Himalayas into Nepal, which will eventually facilitate Chinese influence over India.

Therefore, being aware of this oscillating nature of Indo-Nepal relations is not enough for politicians and policy makers of Nepal. If Nepal wants to take benefit from the rising economy of India, she has to ensure long-term positive relations with India. In order to do so, Nepal needs to identify and implement plans and policies that serve Nepal's national interests and do not contradict India's national interests. Whenever there is a possibility of a clash of interests between the two countries, it is always a good idea to try and settle them before they are surfaced to the level of distrust.

CHAPTER 5

ANALYSIS

Rise of India

It has been a well-known fact that India is in the process of achieving economic prosperity and is willing to play a key role in the global economy as well as global politics. More than 1.25 billion Indians with diverse identities are part of the world's largest democracy. Over the last two and half decades, India has improved its global political position in hopes of achieving strategic aspirations to include hegemony over the region, good relations with China (focused on a policy of containment), and an established relationship with the West, particularly with the United States.[87]

These aspirations have not seen any drastic shift under the governance of new political power. India conducted successful parliamentary election in May, 2014 which saw Narendra Modi came to power in a landslide victory; his Bharatiya Janata Party (BJP) became the first party to win an outright majority in an Indian election in 30 years. Nearly two years in office, Modi has brought new energy to the conduct of foreign policy, his approach is essentially pragmatic, and his objectives are similar to those pursued by his two immediate predecessors—Atal Bihari Vajpayee and Manmohan Singh.[88] However, what we have seen from India's new government in foreign policy is really an attempt at 'Modi delivery' rather than the emergence of a 'Modi doctrine'. This

[87] M. Thapa, 46

[88] Ian Hall, "Is a Modi Doctrine Emerging in Indian Foreign Policy?" *Australian Journal of International Affairs* 69, no. 3 (2015): 247-252, http://dx.doi.org/10.1080/10357718.2014.1000263.

emphasis on delivery is in consent with the pragmatic approach he adopted as Chief Minister of Gujarat, when he risked the fury of fellow Hindu nationalists by pursuing development by any means that worked, rather than adhering to their generally anti-liberal economic thinking.[89]

What we can anticipate from the priorities of the Indian establishment is, India is seeking powerful global role through all elements of national power (Diplomatic, Informational, Military and Economic or 'DIME'). However, their prime focus seems to be economic prosperity which can strengthen other elements of national power.

Rise of Indian Economy

India has gradually gained in global economic prominence over the past decade. In purchasing power parity (PPP) terms, in 2014 India was already the third-largest country in the world after China and the United States. In terms of GDP With growth expected by many observers to remain strong in the future, India's contribution to global growth, and thus its relevance, may increase further.[90]

The attempts India is making towards stronger economy is remarkable. Prime Minister Narendra Modi has visited about 30 countries since May 2014, including India's primary sources of FDI: the US, Japan, Germany, China, Korea and Australia. As per Mr. Amitabh Kant, Secretary, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry; the Government of India is determined to make

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[89] Vivian Fernandes, *Modi: Leadership, Governance and Performance* (New Delhi: Orient, 2014).

[90] European Central Bank, "The Rise to Prominence of India's Economy," April 2015, accessed 13 March 2016, https://www.ecb.europa.eu/pub/pdf/other/eb201504_focus01.en.pdf.

India an extremely easy and simple place to do business by simplifying many procedures, rules, regulations and red tape built up over the last 60 years. He also insists on need to introduce consistency, predictability, transparency and clarity in all the policies.[91] The below mentioned statistical highlights obtained from the Earnst and Young's 'India Attractiveness Survey 2015' emphasize possible continuation of the growth of the Indian Economy.

1. A leading 32 percent of the investors ranked India as the most attractive market this year, while 60 percent placed the country among the top three investment destinations.

2. India has emerged as the number one FDI destination in the world during the first half of 2015. With FDI capital inflows of US$30.8b, India has outpaced all other economies, moving up to the premier position from being in the fifth spot during the corresponding period of the previous year.

3. Business leaders find India's macroeconomic and political stability, FDI policy and ease of doing business more attractive in 2015, compared with EY's 2014 survey.

4. Manufacturing has regained its share in FDI capital flows in 2014, amounting to approximately 46 percent. Investors are most optimistic about the sector, with 62 percent of those interested to expand or enter India over the next year, saying that they plan manufacturing activities.

[91] Ernest and Young, "India Attractiveness Survey 2015: Ready, Set, Grow," accessed 13 March 2016, http://www.ey.com/Publication/vwLUAssets/ey-attractiveness-survey-india-2015/$FILE/ey-attractiveness-survey-india-2015.pdf.

5. Within six months of its announcement, 55 percent of survey's respondents were aware of the 'Make in India' program and 69 percent of those who are aware of the initiative are likely to invest in manufacturing in the next five years.

6. Investors see India speeding up pace toward becoming one of the world's top destinations for manufacturing, as well as a regional hub for operations.

The results and anticipations of the survey seem to be coming true because the economic grwoth of 7.3 percent posted in last three months of 2015 indicates the right direction Indian economy is heading towards. The country has anticipated annual growth of 7.6 percent to be achieved at the end of fiscal year in end of March 2016 and the performance of their economy so far has shown that achievable.[92]

Possible areas of benefit for Nepal

Comparing to Nepal, India is a very large country from every aspect. Therefore, opportunities that India's economic growth create are also huge. Nepal, on the other hand, cannot exploit all the opportunities because of its geography and limitations of resources. Taking closer look at the India's economic growth, demands created by the growth, and Nepal's resources and capabilities, the areas that Nepal can benefit from the rise of India are divided into four groups: India as a energy market , India as a global market of products, India as a job market, and India as a source of foreign currency to Nepal. Further studies are carried out under abovementioned headings. However, the heading, India as a foreign currency sources, has not been discussed separately, rather it

[92] Charles Riley, "India Bucks Global Trend with 7.3 Percent Growth," 8 February 2016, accessed 14 March 2016, http://money.cnn.com/2016/02/08/news/economy/india-economy-growth/?iid=EL.

has been considered as a part of the products and services that Nepal can export to India and also as a services that Nepal can develop in her territory and attract Indian currency in it.

India as a energy market

The study of correlation between energy consumption and economic growth is considered as an important key of a development economy. The study paper, 'Link between Economic Growth and Energy Consumption in Over 90 Countries'[93] shows a strong relation between economic growth and energy consumption of all four income group (lower income, lower middle income, upper middle income, high income) countries. The paper puts India in 'Lower Middle Income' group of countries where bidirectional 'Granger Casualty'[94] relations between energy consumption and gross domestic product (GDP) exists. In particular reference to India where energy consumption has positive impact on GDP growth, it suggests that the benefit of energy use is greater than the externality cost of energy use. Which means, India's economic growth demands more energy, and more energy consumption in turn, contributes in economic growth.

[93] Sahbi Farhani and Jaleleddine Ben Rejeb, "Link between Economic Growth and Energy Consumption in Over 90 Countries," 2015, accessed 13 March 2016, http://www.ipag.fr/fr/accueil/la-recherche/publications-WP.html.

[94] Granger causality is a statistical concept of causality that is based on prediction. According to Granger causality, if a signal X_1 "Granger-causes" (or "G-causes") a signal X_2, then past values of X_1 should contain information that helps predict X_2 above and beyond the information contained in past values of X_2 alone. Accessed 13 March 2016, www.scholarpedia.org/article/Granger_causality.

Importance of energy in India's development

Since the Prime Minister Manmohan Singh came into power in the early 2000s, India has regularly pledged greater cooperation with the United States and Europe on finding reliable, affordable, and sustainable sources of energy. India, along with their U.S., European, and Chinese counterparts, participated in a series of clean energy ministerial meetings. The involvement of these big four on energy is very important because together they constitute two-thirds of global energy demand and also responsible for emission of two-thirds of the world's greenhouse gas.[95] These countries have constantly been questioned by other nations on their commitment to minimize greenhouse gas emmission that makes them think many times before they consider on policies that increases the emmission. India is not separated from this phenomenon as they are bringing major policies, including the "Make in India" campaign to promote manufacturing and the "24x7 Power for All" drive for universal, round-the-clock electricity supply, to the implementation.[96]

The additional demands on the energy system come primarily from industry, not only from energy-intensive sectors, but also from other industries that are targeted by the "Make in India" campaign such as textiles, food processing, machinery and industrial equipment. In addition to this, India's urbanization will add up hugely on energy demands: an additional 315 million people–almost the population of the United States

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[95] William Antholis, *Inside Out India and China: Local Politics Go Global* (Washington, DC: The Brookings Institution, 2013), 132.

[96] International Energy Agency, "India Energy Outlook," World Energy Outlook, 2015, 14, accessed 14 March 2016, http://www.worldenergyoutlook.org/media/weowebsite/2015/IndiaEnergyOutlook_WEO2015.pdf.

today–are expected to live in India's cities by 2040. Fully reliable provision of power in the manufacturing sector give extra impetus to India's economic development and its transition to an urban society.[97]

Currently, India is in the initial stages of a major transformation that is likely to bring new opportunities to its 1.3 billion people. The transformation also expects to move the country to centre stage in many areas of international affairs. The energy sector is expanding quickly but is set to face further challenges as India's modernisation and its economic growth gather pace, particularly given the policy priority to develop India's manufacturing base.

Situation of energy demand in India

Demand of energy in India is consistently increasing. India has been responsible for almost 10 percent of the increase in global energy demand since 2000. Its energy demand in this period has almost doubled, pushing the country's share in global demand up to 5.7 percent in 2013 from 4.4 percent at the beginning of the century. Although the growth looks impressive, this proportion is still well below India's near 18 percent current share of global population, which indicates the potential for further growth. Expressed on a per-capita basis, energy demand in India has grown by a more modest 46 percent since 2000 and remains only around one-third of the world average. One reason of meek growth is that a significant part of the Indian population still remains without

[97] Ibid., 12.

modern and reliable energy: despite a rapid extension of the reach of the power system in recent years, around 240 million people in India lack access to electricity.[98]

Energy demand in India is projected to soar over the coming decades, boosted by an economy that grows to reach more than five-times its current size by 2040 and a demographic boom that sees India become the most populous country in the world by 2025. Energy use more than doubles to reach 1900 million tonnes of oil equivalent (Mtoe) by 2040 (Table 1). The rise in energy use is slower than the increase in gross domestic product (GDP), but still represents around one-quarter of the total increase in global energy consumption over the period to 2040. Because of India's strong population growth, consumption per capita falls slightly short of doubling; the level reached in 2040 is around 60 percent of the global average, up from 33 percent today.[99]

India will continue to take center stage in economic growth because of India's new, pro-reform Government's initiatives designed to encourage investment, including FDI. Prime Minister Narendra Modi aims to transform India's ranking in the World Bank's Ease of doing business ranking from 142 out of 183 economies to 50th place within three years. The Government also aims to reduce the time taken to register a business to 1 day—from 27 days today.[100] More FDI leads to more projects and industries, and consequently more energy. On the other hand, energy use is declining in many OECD countries and China is also moving into a much less energy-intensive phase

[98] Ibid., 21.

[99] Ibid., 56.

[100] Ernest and Young, 10.

in its development; which means, India is emerging as a major driving force in many areas of global energy.

India also takes over from China as the largest single source of rising demand both for coal and oil in the period to 2040 and becomes a significant player in a series of other markets, from wind and solar to nuclear, hydropower and natural gas. In the case of coal, the increase in demand in India makes by far the largest contribution to growth in global consumption to 2040. In the case of oil, India accounts for more than 45 percent of the projected net increase in global consumption. In the electricity sector, demand growth that averages 4.9 percent per year puts all other major countries and regions in the shade: to meet this demand, India needs to build more than 880 gigawatts (GW) of new power generation capacity over the period to 2040 (for comparison, the entire installed capacity of the European Union is currently around 1000 GW).[101]

The period of rapid change anticipated for the Indian energy system in the New Policies Scenario demands very high increase in all types of fuel but does not translate into a dramatic shift in the energy mix (Table 1); although there are some noticeable changes in flows through the system as a whole and in the relative weight of the different end-use sectors. Coal retains a central position in the mix, increasing its overall share in primary energy from 44 percent in 2013 to 49 percent in 2040 (bucking the global trend, where coal declines by 4 percentage points to 25 percent), and the shares of oil and gas edge slightly higher. Some of the largest changes however are in the use of non-fossil fuels. On the one hand, the proportion of solid biomass, used mostly in cooking, falls from almost a quarter of primary energy in 2013 to 11 percent in 2040; but, on the other,

[101] International Energy Agency, 57.

there is strong growth in the deployment of modern renewables technologies, including solar, hydro and wind power.[102]

Table 1. Primary energy demand by fuel in India in the new policies scenario (Mtoe)

	2000	2013	2020	2030	2040	Shares		2013-2040	
						2013	2040	Change	CAAGR*
Oil	112	176	229	329	458	23%	24%	282	3.6%
Natural gas	23	45	58	103	149	6%	8%	104	4.6%
Coal	146	341	476	690	934	44%	49%	592	3.8%
Nuclear	4	9	17	43	70	1%	4%	61	7.9%
Renewables	155	204	237	274	297	26%	16%	93	1.4%
Hydropower	6	12	15	22	29	2%	1%	16	3.2%
Bioenergy	149	188	209	217	209	24%	11%	20	0.4%
Other renewables	0	4	13	35	60	0%	3%	56	11.0%
Fossil fuel share	*64%*	*72%*	*75%*	*78%*	*81%*	*72%*	*81%*	*8%*	*n.a.*
Total	**441**	**775**	**1 018**	**1 440**	**1 908**	**100%**	**100%**	**1 133**	**3.4%**

Note: * Compound average annual growth rate

Source: International Energy Agency, "India Energy Outlook," World Energy Outlook 2015, accessed 14 March 2016, http://www.worldenergyoutlook.org/media/weowebsite/2015/IndiaEnergyOutlook_WEO2015.pdf.

Coal

Coal is and will remain the largest source of energy in India in 2040. Indian coal consumption of 1300 million tons of coal equivalent (Mtce) in 2040 is 50 percent more than the combined demand of all OECD (Organization for Economic Cooperation and Development) countries and second only to China in global terms. However, this makes India, by a distance, the largest source of additional global coal demand.[103] The largest

[102] Ibid.

[103] Ibid., 57.

share of coal consumption in 2040 would go to industries sector, followed by transport, buildings, and other.

Oil

Demand for oil in India increases by more than the growth in any other country or region in the world to 2040, by 6.0 million barrels per day (mb/d) to reach 9.8 mb/d. Major reason for rise is related to transport that accounts for 65 percent of the rise, as 260 million additional passenger cars, 185 million new two- and three-wheelers and nearly 30 million new trucks and vans are added to the vehicle stock. The pattern of transport fuel use remains weighted towards diesel, although gasoline shows a faster rate of growth. Oil–mainly in the form of liquefied petroleum gas (LPG)–is in strong demand also in the residential sector.[104]

Natural Gas

In comparison to the world and non-OECD averages, natural gas plays a relatively minor role in the Indian energy mix in the New Policies Scenario. Gas use is projected to make in-roads in many sectors, from power generation to transport, while retaining an important role as a feedstock for the fertiliser industry. But, despite its usefulness and low impact on environmental degradation, compared with coal, its relatively high price does not allow it to displace other forms of energy more rapidly.[105]

[104] Ibid., 59.

[105] Ibid., 61.

Electricity

Around 36 percent of India's primary energy supply is used today as an input to power generation, that includes around 65 percent of its coal, 31 percent of its gas, its nuclear and hydro components; and the bulk of the contribution coming from other renewable sources, excluding bioenergy. Despite the large expansion in the coal-fired fleet and steady growth also from gas-fired power, more than half of the electricity generation capacity additions anticipated in India over the period to 2040 come from nuclear, hydropower and other renewables, where solar energy would grow to become second largest after coal.[106]

Electricity demand rises by 4.9 percent per year on average from 900 terawatt-hours (TWh) in 2013 to almost 3300 TWh by the end of the 2040. With more than triple growth in demand, India accounts for almost 17 percent of the increase in global electricity demand from 2013 to 2040, which is roughly equivalent to today's power consumption in Japan, Middle East and Africa combined. With annual average growth of 4.0 percent, Per-capita electricity consumption grows from over 710 kWh to more than 2000 kWh per year but still remains well below the world average in 2040.[107]

The sources of energy supply in India

Self sustainment, in terms of energy production to satisfy growth needs, does not look very encouraging in case of India. Domestic energy production grew from 291 Mtoe in 1990 to 502 Mtoe in 2009 at a CAGR of 2.9 percent. Considering India's demand

[106] International Energy Agency, 61.

[107] Ibid., 83.

growth at a CAGR of 4 percent for the same duration, domestic supply could not keep up with the demand. From 1990 to 2009, as total energy imports increased from 34 Mtoe to 236 Mtoe, India's import dependence increased from 11 percent to 35 percent.[108]

The roaring demand of energy in India means it has to mobilize all possible supply of resources; particularly, because India's domestice production cannot sustain its growing needs. It is anticipated that deployment of wind and solar power increases at the fastest pace. Also the production of all domestic sources of energy will be higher in 2040 than in 2013, with the sole exception of oil, where India's resource limitations come into play. Yet domestic energy production is not sufficient in aggregate to keep up with demand, leaving a growing gap that needs to be filled by imported fuels. Increases in domestic coal production keep the need for coal imports at least partly in check. But net oil imports rise dramatically, to reach 9.3 mb/d by 2040, an import dependence of greater than 90 percent.[109]

Current outlook of India's energy supply indicates mix responses. In some fields, it has encouraging possibilities; while in other, dependency seems to be ever growing. The 'Table 2' below indicates current and projected energy production in India in New Policies Scenario.

[108] Sun-Joo Ahn and Dagmar Graczyk, "Understanding Energy Challenges in India: Policies, Players and Issues," International Energy Agency, 1 September 2012, accessed 15 March 2016, https://www.iea.org/publications/freepublications/publication/India_study_FINAL_WEB.pdf, 26-27.

[109] International Energy Agency, 100.

Table 2. Energy production in India in the New Policies Scenario

							2013-2040	
	Unit	**2000**	**2013**	**2020**	**2030**	**2040**	**Change**	**CAAGR***
Oil	Mtoe	37	43	35	31	31	-12	-1.2%
	kb/d	771	917	734	678	725	-192	-0.9%
Natural gas	Mtoe	23	29	32	46	75	46	3.6%
	bcm	28	35	38	55	89	55	3.6%
Coal	Mtoe	131	238	298	443	648	410	3.8%
	Mtce	187	340	425	632	926	586	3.8%
Nuclear	Mtoe	4	9	17	43	70	61	7.9%
Renewables	Mtoe	155	204	237	274	297	93	1.4%
Hydropower	Mtoe	6	12	15	22	29	16	3.2%
Bioenergy	Mtoe	149	188	209	217	209	20	0.4%
Other renewables	Mtoe	0	4	13	35	60	56	11.0%
Total production	Mtoe	**351**	**523**	**619**	**836**	**1 121**	598	2.9%
Total demand	Mtoe	441	775	1 018	1 440	1 908	1 133	3.4%
Share of imports	*%*	*20%*	*32%*	*39%*	*42%*	*41%*	*n.a.*	*n.a.*

Notes: kb/d = thousand barrels per day; bcm = billion cubic metres; Mtce = million tonnes of coal equivalent. * CAAGR = compound average annual growth rate.

Source: International Energy Agency, "India Energy Outlook," World Energy Outlook, 2015, accessed 14 March 2016, http://www.worldenergyoutlook.org/media/weowebsite/2015/IndiaEnergyOutlook_WEO2015.pdf.

Coal

Total proven coal reserves in India amount to 87 billion tons–roughly equivalent to 140 years of current output–of which hard coal (steam and coking coal) makes up 95 percent, and the remainder is lignite. Total coal resources (inferred and indicated), including deposits that are yet to be proven, are almost two-and-a-half-times larger, at 213 billion tons. Coal is not evenly dispersed across India. Most can be found in the east of the country, with two-thirds of Indian reserves located in the states of Jharkand, Odisha and Chhattisgarh. Moreover, Indian coal reserves are mostly shallow, at a depth of up to 300 metres, and are typically exploitable using surface mining methods. Coal occurring at depths greater than 300 metres is usually economically extractable only with

underground mining techniques. Coal companies in India have extensive experience in surface mining, but so far, state-of-the-art underground mining–even though already applied in some mines–has made limited in-roads. The shift towards underground mining is increasingly necessary to sustain production growth.[110]

Oil and natural gas

India is heavily reliant on imports for the bulk of its crude oil supply. Its smaller natural gas sector is likewise dependent on imports. The disparity between domestic resources and needs is particularly stark in the case of oil: proven reserves of 5.7 billion barrels (out of the total remaining recoverable resources of 24 billion barrels) compare with annual crude demand that is already at 1.4 billion barrels and rising every year. But the case of natural gas is different, for which remaining recoverable resources stand at a much healthier 7.9 trillion cubic metres (tcm). Around half of this is conventional (almost all offshore) gas and half is unconventional, in the form of shale gas and coalbed methane. The rate at which produced reserves have been replenished (through exploration and development activities that turn resources into proven reserves) has been slightly negative in the case of oil in recent years, but positive in the case of gas: in the past seven years, India has produced some 280 billion cubic metres (bcm) of gas while adding more than 330 bcm to proven reserves.[111]

[110] International Energy Agency, 100-104.

[111] Ibid., 113-114.

Renewable energy

The abundance of renewable energy resources across India, coupled with declining costs for their exploitation has created a fertile environment for their expansion. Renewable sources of energy are expected to grow strongly, particularly in the power sector, where renewables account for half of all the new capacity brought online over the period to 2040, increasing their share of capacity in the power mix from 28 percent to more than 40 percent. In contrast to fossil fuels, India's renewable energy resources are spread much more evenly across the country, although there are still some strong regional variations–particularly for hydropower. The installed capacity of renewable power generation was 23 GW in January 2012, which is equivalent to nearly 12 percent of total power capacity (MNRE, 2012a; CEA, 2012a). Wind comprises the largest capacity with 16 GW or 70 percent of total renewable capacity, followed by small hydro at 14 percent and bagasse cogeneration at 9 percent. Solar PV with 481 MW capacity represented only 2 percent of total renewable installation.[112] In following paragraphs solar, wind, and hydro power are discussed separately for better understanding.

Solar power

India has substantial solar potential, estimated by India's National Institute of Solar Energy at around 750 gigawatts (GW) (based on the assumption that 3 percent of wasteland in each state can be used for solar power projects, plus an assessment of the potential for rooftop solar). This represents almost three-times India's total installed power capacity today. The solar resource is strongest in the north and northwest of the

[112] Sun-Joo Ahn and Dagmar Graczyk, 75.

country (Rajasthan, Jammu and Kashmir), but it is also considerable in a number of other states, including Maharashtra, Madhya Pradesh, and Andhra Pradesh. Installed capacity has been growing quickly. Utility-scale solar photovoltaic (PV) projects have made the fastest in-roads, with about 4 GW of capacity in place as of mid-2015 (up from 3 GW in 2014). Rooftop solar installations have been slower to take off, with around 450 megawatts (MW) of capacity installed as of 2014. Concentrating solar power (CSP) has only just started to gain ground, with around 200 MW in operation.[113]

Windpower

Estimates of India's wind power potential vary greatly, depending on different assumptions of efficiency, hub heights, turbine size and land-use considerations. The most recent official estimates by the National Institute of Wind Energy, which take into consideration only land deemed suitable for wind turbine installations9, put total onshore wind power potential with a hub height of 100 metres at 302 GW (National Institute for Wind Energy, 2015). The most promising sites are in the west and south, with around 90 percent of the potential in the states of Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Karnataka, Maharashtra and Gujarat. Wind power generation is projected to increase strongly, with installed capacity rising from 23 GW to 142 GW in 2040.[114]

Hydropower

Although capacity has steadily increased, for various reasons, the contribution of hydropower to Indian power generation has been on a declining trend in recent decades,

[113] International Energy Agency, 127.

[114] Ibid., 131.

from close to 40 percent in 1980 to 12 percent in 2013. Hopes that this trend might be reversed rest on the sizeable remaining potential–India has used a little over a quarter of its economically feasible hydropower resource–as well as on the operational advantages of hydropower in balancing a power system which has an increasing share of wind and solar capacity. To tap into this potential, hydropower projects need to overcome a set of challenges common to many large infrastructure projects in India, notably extended timelines to procure all the necessary approvals, especially environmental permits, difficulties with land acquisition (both for the plant and for new transmission lines to evacuate the power), public opposition and obtaining long-term finance. The 12th Five-Year Plan (FYP 2012-17) envisages an ambitious capacity expansion of renewable power of nearly 30 GW of which hydro consists only 2.1 GW.[115] The achievement of the 12th Five-Year Plan objectives will contribute in growth of installed capacity for large hydropower from 42 GW in 2014 to just under 100 GW in 2040. Most of the increase takes place in the latter part of the projection period in the northern and northeast regions, where India's remaining hydro potential is concentrated.[116]

Bioenergy

Bioenergy demand rises by around 11 percent over the projection period to 2040, a moderate increase that results in the share of bioenergy steadily shrinking in the Indian energy mix. Power generation based on biomass rises by more than five-times to reach around 120 TWh in that period, providing a valuable contribution to the reliability of

[115] Sun-Joo Ahn and Dagmar Graczyk, 76.

[116] International Energy Agency, 132.

rural electricity supply. But despite policy support for modern biomass technologies in India, the uptake of bioenergy-based supply is constrained by relatively high costs and by poor access to financing.[117]

Nuclear Power

India was one of the first countries to adopt nuclear power technology, with its first commercial reactor coming online in 1969. Its nuclear industry has developed by relying heavily on indigenous technologies, as a result of its status as a non-signatory to the Nuclear Non-Proliferation Treaty. India ranks as the world's 13th largest country in terms of nuclear generation, with installed capacity of 5.8 GW in 2014 with 21 reactors at seven sites. It has a further six reactors, with a total capacity of around 4 GW, in various stages of construction. India has a strong commitment to develop additional nuclear power as a way to meet its rising energy needs and enhance its energy security on a low-carbon basis. Its current target is to triple nuclear power capacity over the decade from 2014 which would equate to capacity of 17.3 GW in 2024. It also has a longer term target for nuclear power to supply 25 percent of the nation's electricity by 2050.[118]

Implications of energy status of India

An accelerated realization of key Indian policy targets, notably the "Make in India" campaign to promote manufacturing, and universal, round-the-clock electricity supply means a large rise in the energy needed to fuel development, at least ten-times more energy per unit of value added compared with growth led by the services sector.

[117] Ibid., 133.

[118] Ibid., 135.

These policy goals along with the need of energy coming with demographic boom and urbanization will see India moving to the centre of global energy affairs, accounting for 25 percent of the rise in global energy use to 2040, (more than any other country), and the largest absolute growth in both coal and oil consumption. India's increasing reliance on imported energy has a profound effect on global energy investment and trade; and especially for oil, implications for India's energy security which need attention.[119]

India is among the most vulnerable countries when it comes to the impacts of a changing climate. One example is, the potential effects of water scarcity–which could be exacerbated by climate change–on the operation of India's coal-fired power fleet. India therefore has a strong interest in concerted and effective global action on Greenhouse Gas (GHG) emissions. Even though, despite its population and size, India has accounted for a small share of the cumulative GHG emissions released into the atmosphere thus far: only 3 percent of historical energy-related CO2 emissions since 1890. India's per-capita share of emissions, at 1.5 tons of CO2 in 2013, are around one-third of the global average. However, the domestic and international challenge for India is to demonstrate serious intent to limit emissions, reducing the rate at which emissions grow in the future, while still preserving sufficient headroom to allow for growth in the economy. In the New Policies Scenario, the carbon intensity of India's economy improves substantially, but India's emissions rise from 1.9 Giga tons (Gt) in 2013 to 3.7 Gt in 2030 and around 5 Gt in 2040, meaning that emissions per capita converge towards the global average.[120]

[119] Ibid., 147.

[120] Ibid., 148.

Nepal’s energy potential

Until today, Nepal does not have a significant proven reserve of fossil fuel; however, it has a huge potential of generating clean energy. The potential of generating clean energy in Nepal is mainly associated with its water resources. In addition to water resources, Nepal also has a large potential to generate clean energy from wind as well as solar power. Although, Nepal has few indications of presence of natural gas and some other energy sources, this research will mainly focus on hydropoer, windpower and solarpower.

Hydropower

It is a well-known fact that, rivers and streams have great importance for industrial and drinking water supplies, irrigation, tourism, and hydro-electric projects. Nepal's vast water resources include over 6,000 rivers and streams, many snow peaks, lakes, 3,252 glaciers, and 2,323 glacial lakes and groundwater resources.[121]

Nepal has a total theoretical hydro-electricity potential of 83,290 MW; of which, a generation of 42,110 MW of hydro-electricity is in economically feasible terms. Nepal's current total installed capacity is 609 MW and meets the electricity requirements of 40 percent of the total population. Based on these facts, it can be safely stated that just about 2,000 MW of hydroelectricity will be sufficient for Nepal's domestic consumption.[122] Keeping Nepal’s pursue of economic development and need of energy to sustain the

[121] S. Bhandari, *Geography of Nepal* (Kathmandu: Ratna Pustak Bhandar, 2002).

[122] Poudel, 2.

development in mind, it is not hard to project that, Nepal can sell more than 30,000 MW of excess electricity to India if it can fully exploit its potential.

Solar Power

On average Nepal has 6.8 sunshine hours per day with the intensity of solar insolation ranging from 3.9 to 5.1kWh/m2-day (the national average is about 4.7kWh/m2/day). Using photovoltaic (PV) modules of 12 percent efficiency and assuming peak sunshine of 4.5 h per day, the total energy generated would be 80,000 GWh/day or 2064 million tons of oil equivalent (Mtoe) per year. Of which, if Nepal can generate 0.01 percent energy, it will be more than their total present energy in the market.[123]

However, recently the Alternative Energy Promotion Centre's (AEPC) report on Solar and Wind Energy Resource Assessment in Nepal (SWERA) stated that the commercial potential of solar power for grid connection is only 2100MW.[124] Overall, the exploitation of this potentiality will largely depend on the acceptability and affordability of the technology. Nevertheless, it can contribute in fulfilling large portion of national demand (especially of remote areas where construction of long transmission line is economically not feasible) and significantly add on export potential of energy of the country.

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[123] K. C. Surendra et al., "Current Status of Renewable Energy in Nepal: Opportunities and Challenges,." 24 August 2011, accessed 18 March 2016, http://manoa.hawaii.edu/reis/wp-content/files_mf/paperkcsurendra.pdf.

[124] Ibid.

Wind Power

As of now, wind energy is an unharnessed energy resource in Nepal. Due to its diverse topography and variation in meteorological conditions, it is difficult to generalize wind patterns in the country. The Solar and Wind Energy Resource Assessment (SWERA, 2002–2007) project reported a potential area of about 6074 sq. km with a wind power density greater than 300W/m2, and total commercial potential of 3000MW wind power considering the installed capacity of 5MWper sq. km. However, most of the potential areas are very site specific in mountainous locations without infrastructure support.[125] While it is not easy to reap potential of wind energy in Nepal in regards to export potential, it can still significantly contribute to address domestic need, thereby contributing in export potential of other energy sources.

Petroleum and natural gas

A series of Oil and Natural gas seeps are recoded in a stretch of 14km in Western Nepal in Padukasthan, Sirsathan and Navisthan and only gas seep in Muktinath (Mustang). GON/ DMG are giving high priority to explore and promote petroleum exploration in Nepal since 1982. DMG/ Petroleum Exploration Promotion Project (PEPP) identified 10 prospective blocks in the southern parts of the country. Shell Company of Netherlands conducted exploration in Block no.10 in eastern Nepal. It has drilled a well up to 3520m deep but the hole appeared dry. At present Texana Resources Company of USA and Cairn Energy PLC of UK have initiated the exploration works in Block no 3 and 5; and 1, 2, 4, 6 and 7 respectively. The possibility of finding oil in some of these

[125] Ibid.

blocks appears fairly high.[126] However, until the presence of resources are confirmed, their quantity, quality, feasibility, and export potential cannot be analyzed.

Analysis of energy status of both countries

India's encouraging economic growth of past few decades is likely to continue in foreseeable future. As India's economic growth demand tremendous amount of energy and India's domestic resources are not sufficient to fulfill those demand, Nepal, as one of the closest neighbors, could be a part of supply to meet their demand. Nepal does not have proven reserve of fossil fuel; neither it has promising amount of oil and natural gas, but Nepal has tremendous amount of water resources that can be utilized to generate clean energy. Currently Nepal's domestic demand of power is around 3 percent of total hydroelectricity potential and less than 10 percent of the total potential is enough to fulfill Nepal's domestic demand in many decades to come. Which means, any amount of additional energy Nepal can produce, can easily be exported to India.

Nepal shares border with five Indian states: Sikkim, West Bengal, Bihar, Uttar Pradesh, and Uttaranchal. Important factor to consider here is, most of these states are power hungry and backward states of India. Out of these, Uttar Pradesh and Bihar have combined population of more than 300 million; of which, more than 80 percent live in rural areas and don't have access to modern facilities.[127] Other bordering states also do not have developed status and remains power hungry. Moreover, these bordering states are not among those Indian states, which have been regarded as suitable states to develop

[126] Government of Nepal, "Fuel Minerals," accessed 18 March 2016, http://www.dmgnepal.gov.np/resources/fuel-minerals.

[127] Antholis, 109.

wind and solar energy. This means, Nepal does not need to go deep into India to find market for its excess production of energy; they are right next door.

Another important factor that would make Nepal's energy better choice for India is that, India is relying too much on coal (which is only going to increase in the future), thereby causing lots of greenhouse gas emmission. India is well aware of the commitment it has made to the rest of the world to decrease its share of greenhouse gas emmission, so renewable energy available next door would be a suitable option for India.

One more important step was achieved in energy exchange between India and Nepal in 21 October 2014, when both countries signed the 'Power Trade Agreement' (PTA), laying cornerstone for the construction of cross-border transmission line and signing of 'Power Purchase Agreement' (PPA) in the future. The most important of all, India's intention to purchase electricity from Nepal is not limited to speculation. PM Modi on his address to the parliament of Nepal on 3 August 2014, clearly stated that, currently India is helping Nepal to minimize power deficit, but after a decade Nepal will remove the darkness of India by exporting electricity to India.[128]

India as a job market

Although India is second most populous nation in the world, statistics do not indicate encouraging data. While India's economic rise has been a remarkable success in lifting tens of millions out of abject poverty, it still consists hundreds of millions of people living in extreme poverty. By 2030, India is projected to overtake China as the

[128] You Tube, "PM Narendra Modi's Speech at Nepal Constituent Assembly," 3 August 2014, accessed 18 March 2016, https://www.youtube.com/watch?v=WIwgEbr2sJc.

most populous country in the world, with the third-largest economy. It will add significant advantage to India because, it is a very young nation, with nearly two-thirds of its people below the age of thirty five.[129]

As per the data emerges from new Census 2011, 116 million Indians were either seeking or available for work. Out of which, 32 million were illiterate and 84 literate. Among literates, unemployment rates were higher among the better qualified, highest of all among the 7.2 million people with a technical diploma or certificate other than a degree. The 'unemployed' included those who were not currently working but were seeking or available for work, as well as those in marginal employment; meaning that they worked for fewer than six months in the year preceding the Census and those who were seeking or available for work. Based on official Census data, India's unemployment rate grew from 6.8 p.c. in 2001 to 9.6 p.c. in 2011. Unemployment grew faster for illiterates than for literates. In all, India had just 56 million graduates and post-graduates in 2011 and 12 million with a technical certificate or diploma equivalent to a graduate or post-graduate degree.[130] This means, India needs to create jobs; not only to employ its unemployed population but also to sustain growth and achieve policy objectives. As India's progress in path of economic growth looks consistent for the near future, its requirement of human capital to sustain the growth will also increase. As per the Government Report of India, around 119 million additional skilled workforce will be

[129] Mukesh Ambani, "Making the Next Leap," in *Reimagining India*, ed. Clay Chandler and Adil Zainulbhai (New York: Simon and Schuster, 2013), 35.

[130] The Hindu, "In India, Unemployment Rate Still High," 7 November 2015, accessed 16 March 2016, http://www.thehindu.com/news/national/in-india-unemployment-rate-still-high/article7851789.ece.

required by 2022 in various sectors. Most of the sectors, except agriculture, will require more skilled workforce.[131]

Status of human capital in Nepal

As per the 'National Population and Housing Census 2011' conducted by Central Bureau of Statistics, Nepal, the total population of Nepal is 26,494,504. The working age population (aged 15 to 59 years) has increased from 53 percent (12,310,968) in 2001 to about 57 percent (15,091,848) in 2011 showing the population structure is shifting for enjoying demographic dividend in the country.[132] Unfortunately, a large chunk of this working age population of Nepal is forced to leave the country to seek employment abroad. In 20013/14, a total of 2,226,152 Nepalese migrant workers were recorded, signifying a staggering 137 per cent increase since 2008/09 and, representing about 8 per cent of Nepal's total population.[133] The above mentioned number of migrant workers does not represent migrant workers, seasonal migrant workers, and the soldiers of Indian Army. It is very difficult to ascertain the exact number of Nepalese migrant workers in India for various reasons. 2001 National censuses of both countries show the number around 6 hundred thousand, but the present number is much higher than that and could be

[131] Economic Times.

[132] Central Bureau of Statistics, "National Population and Housing Census 2011," November 2012, accessed 18 March 2016, http://unstats.un.org/unsd/demographic/sources/census/2010_phc/Nepal/Nepal-Census-2011-Vol1.pdf.

[133] Government of Nepal, "Labor Migration for Employment, A Status Report for Nepal: 2013/2014," accessed 18 March 2016, http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-Kathmandu/documents/publication/wcms_312137.pdf.

somewhere in between 1.4 to 3.0 million.[134] The number of Nepali migrant workers clearly indicate that, Nepal has enough working age population it needs for the economic growth it wants to achieve. However, Nepal cannot retain its working age poulation unless it can guarantee them job in Nepal.

Implications of India's job market to Nepal

Nepal is likely to have close impacts of Inida's human resources demand and supply. As included in 'India-Nepal Peace and Friendship Treaty 1950', article VII, "The Government of India and Nepal agree to grant, on a reciprocal basis, to the nationals of one country in the territories of the other the same privileges in the matter of residence, ownership of property, participation in trade and commerce, movement and other privileges of a similar nature." With this provision, the growing unempolyment and increasing job opportunities in India can have two types of impact to Nepal.

Firstly, since Nepal is one of the least developed countries in the world and seeking to unleash its development potential, it needs skilled manpower in the near future. In that situation, Nepal does not need to worry, if it can attract large chunk of India's unemplyed population that include technically skilled manpower to fulfill her needs. Secondly, at present, Nepal is also suffering from lack of job opportunities to its people; therefore, job opportunities created by India's economic growth could be an attractive destination for Nepalese migrant workers. In addition to this, Nepal may also take advantage of the Government of India's programs to develop skilled manpower in

[134] Sanjay Sharma and Deepak Thapa, *Taken for Granted: Nepali Migration to India* (Kathmandu: Center for the Study of Labor and Mobility, 2013), 6.

the near future, and by developing quality universities and education centers, may offer education and trainings to Citizens of India in the long run.

Looking at the India's proximity and the growth that country is seeing, it will remain the biggest job market for Nepali migrant workers for the foreseeable future. With an increase in wages in India, many opportunities for Nepali workers will open up in the growing retail business, hospitality, financial services industry, and outsourcing industry. Given the proximity cultural similarity, and working conditions in India, these options would be far better and closer to home for migrant Nepali workers, than living in labour camps in faraway Malaysia or the Middle East.[135]

India as a global market

Demographics play a critical role in shaping the size of the labour force and economic productivity and demographic structure has a bearing on economic growth. In today's context, most of the advanced countries have ageing populations; at the same time, their share in the global GDP is reducing in relative terms.[136] But the picture of India is totally different. Already, the Indian middle class exceeds four hundred million, and by 2040, it could conceivably top one billion; which would create a wave of new demand with the power to inspire all manner of innovative new products and services. Well before one billion people reach middle income levels, roughly that many will be

[135] Sujeev Shakya, *Unleashing Nepal* (New Delhi: Penguin Books, 2013), 237-238.

[136] "India and the Global Economy," accessed 18 March 2016, http://indiabudget.nic.in/es2011-12/echap-14.pdf.

connected by mobile phones, a phenomenon that has the power to change the game for any industry, banking, education, entertainment, health care, retail etc.[137]

Needless to say, the Indian market represents enormous business potential, not only to its increasing middle class, but also to the 2/3 of the population who still resides in rural areas. Despite an income of below or around the poverty line, this Bottom of the Pyramid (BOP) segment has an enormous aggregated purchasing power waiting to be served by domestic/foreign firms who could adjust their products to the needs of the Indian consumers. In the recent past, when global financial crisis shaked the world, India was not hit as hard as other countries mainly due to strong domestic demand. Therefore, Investment in India should not be considered as short-term. It is difficult and resource intensive and it requires robustness and a long-term strategy to engage in the market. However, if thoroughly prepared right niches and business models are applied, exciting return is almost guaranteed.[138]

What can Nepal offer to Indian market?

Globalization has made the world a small village where everyone can share their access and get their lackings. As India continues to grow as an attractive market in the future, it provides global suppliers an opportunity to cash. Nepal benefits from duty-free access for most of its goods exports, with some exceptions based on rules of origin (RoOs). However, similar benefits are also being extended to other LDCs, leaving Nepalese exporters with little or no tariff advantage. Nevertheless, Nepal enjoys special

[137] Ambani, 35.

[138] Ministry of Foreign Affairs, "India as a Market," accessed 18 March 2016, http://indien.um.dk/en/the-trade-council/india-as-a-market.

bilateral relations as well as geographical proximity to India, which can serve in Nepal's advantage. Taking closer look at the resources, capabilities, and possibilities Nepal has, following are the areas where Nepal can exploit the growing Indian Market. The identification of export potential of Nepal to India is based on current demand as well as the possibility of generating future demand in India.

Agro-product

Nepal's geographical location, soil formation, continuously flowing himalayan rivers, fertile river basins and valleys, and diverse climatic conditions provide Nepal a very good potential to develop agro products. Out of possible agro-foods, there are some products that have shown huge export potential; they are: tea, cardamom, ginger, honey, lentils, instant noodles, turmeric, and medicinal herbs.[139]

Tea growing has been established for about 150 years in Nepal; however, it was not until 1982 that its significance as an export earner was identified by the Government of Nepal. The industry began to be more organized and recognized as a potentially signifi cant sector with the government promulgating Nepal Tea and Co ffee Development Act in 1993 and setting up the Tea and Co ffee Development Bo two types of tea produced in Nepal: orthodox/green (leaf) tea and black tea/CTC (crush, tear, curl) tea; of which CTC tea has six varities and orthodox has three. India is the main destination for export of Nepal orthodox as well as CTC tea. As per the government record, in 2008, Nepal exported total US $16.8 million equivalent tea in international market; not surprisingly, more than 95 percent of that was exported to India. As we look

[139] Ministry of Commerce and Supplies, *Nepal Trade Integration Strategy 2010: Executive Summary and Action Matrix* (Kathmandu: Government of Nepal, 2010), 10.

forward to the future, tea is likely to remain as one of the most important export potentials of Nepal.[140]

Large cardamom (Amomum subulatom Roxb.) is one of the oldest spices indigenous to the eastern Himalayas. Large cardamom was introduced into Ilam (district of Nepal) in 1865, by Nepalese labourers who went to Sikkim (state of India) for seasonal work. However, commercial cultivation was started in Ilam only in 1953. Nepal is by far the world's largest exporter of large cardamom and has also become the largest producer in recent years. In 2008, Nepal exported total US $21.3 million equivalent cardamom in international market; of which, India accounted for more than 90 percent. Cardamom pose a very good opportunities for export growth in coming years; particularly because, domestic consumption is only around 10 percent of total production and the demand in international market is consistently increasing. Traders report that almost all the exported quantity of large cardamom from Nepal to India is re-exported to Pakistan, UAE, and other countries by Indian traders. It is also reported that Nepali large cardamom is preferred over the Indian large cardamom in Pakistan and other markets due to its quality. Thus, it indicates the potential of export growth in the near future in India as well as in third countries.[141]

Besides cardamom, Ginger is Nepal's most important exported spice, with exports in 2008 of US $8.2 million. Statistically, Nepal is the fourth largest producer and sixth largest exporter of ginger in the world. It can be either fresh or dried. It is one of the main sources of cash income for farmers across the Nepal because, climatic suitability helps

[140] Ibid., 45.

[141] Ibid., 22.

ginger grow in altitudes as high as 1,500m. It also serves as an important counterforce to rural-urban migration by providing income and new opportunities to remote people. According to estimates obtained from industry sources, around 75 per cent of the domestic production is exported, which is around three times higher than the o fficial exports. This means that annual exports could be as high as US $25 million. Export prospect seems very positive, with demand exceeding supply. Nepal is unable to supply the required demanded quantity and cater for the expected fresh ginger market expansions of India.[142]

Since beekeeping and honey production is a long-established practice, honey is produced all over Nepal. Nepal's abundant forest flora, diversified horticultural and crop producing farming system, geo-climatic conditions and biodiversity are very conducive for good quality specialty honey production and because of that the sector has attracted considerable attention from government agencies and the donor community in recent years. The total production of honey is estimated to be around 500-1,000 MT per year. Around 50 percent of the production is exported to India, with very little exports to other countries. The overall economic importance of honey remains small; however, the advantage to Nepali honey in India over onther major exporters like China and Australia has reserved the safe growth potential for Nepali export.[143]

Lentil is a legume crop having a very important role in improving soil fertility and sustainability of the farming system. The majority of farmers grow lentil for consumption

[142] Ibid., 27-29.

[143] Ibid., 33-34.

while in the Terai Region,[144] it is mainly grown for the domestic market and for export. The national production of lenti ls has been in the range of 140,000 to 160,000 MT per year since 2000; of which, approximately 15 percent is exported. Nepal is recognized as a significant player in the world's lentil market. Over the past two decades, it has ranked as number eight both as a producer and as an exporter. Just like previously mentioned agro-foods, major portion of the Nepalese lentils are also exported to India. Although India itself is a significant producer of lentil, Nepalese lentils are said to be preferred in India. In comparison to Indian lentils, they are smaller in size but considered tastier.[145]

Another product having good export potential in Nepal is instant noodles. Invented in Japan in the late 1950s, production of instant noodles in Nepal began in the early 1980s. This came at a time when there was a growing demand for instant noodles, which were imported mainly from Thailand. Today, the estimated value of production is US $28 million, with exports above US $10 million. The internal market of instant noodles in Nepal is very good. Presently Nepal the 17th largest consumer of the instant noodles in the world. After the Nepal-India treaty of 1996, Nepal made instant noodles have found a ready market in India where Nepalese brands are now well-established. In fiscal year 2008-2009, Nepal exported instant noodles worth US $11.5 million; out of which, almost 85 percent went to India. What truly encourages Nepal in export of instant

[144] Nepal is geographically divided into three regions that constitutes three roughly parallel belts across the length of Nepal. Northern most region is Mountain Region, middle region is Hill Region and the southernmost region is Terai Region. Terai Region consists of plain fertile land and often called 'Bread Basket' of Nepal.

[145] Ministry of Commerce and Supplies, 40-41.

noodles is, in year 2008-2009, almost 100 percent of India's import of instant noodles was from Nepal.[146]

Medicinal herbs are probably the most important of all the agro related export potential of Nepal. They have directly contributed to the livelihoods of people in Nepal's mountainous areas for many centuries. Nepal's biodiversity exists due to its climatic conditions, and many isolated topographical locations hosts around 7,000 species of plants. About 1,800 species are currently in use for production of medicines, essential oils, cosmetics, aromatic foods, and perfumes. The sector has the potential to contribute more to poverty alleviation as it provides employment in remote areas where the harvest takes place. Information from industry sources suggest that exports of medicinal herbs, which go mainly to India, could be as high as US $10 million per year.[147] The growth of population and market size in India shows a good sign for increase of Nepal's export of medicinal herbs.

Nepal is noted for its exceptionally rich bio-diversity, as it possesses a wide variety of topographical and climatic conditions within a small area that provides ideal conditions for floriculture. Floriculture business has been flourishing in Nepal since the early nineties driven by entrepreneurial enthusiasm and investment caused by the growth in consumption in the domestic market. The business has witnessed sharp rise in small time frame and achieved the status of export potential. The value of export has grown over the last six years, making Nepal a net-exporter of flower products. Currently, the

[146] Ibid., 51-52.

[147] Ibid., 56-57.

Netherlands, USA, India, Japan and Denmark are the main markets.[148] The production of seasonal flowers amounted to Rs216.8 million (US $2.1 million)[149] in 2014. Decorative flowers worth Rs381.5 million, cut flowers worth Rs204.5 million and landscape and gardening flowers valued at Rs170.4 million were also produced. The country exported flowers worth Rs30 million in the last fiscal year (2014-15).[150] Over the last few years, cut flowers market in India has shown a positive sign of export growth. In fact, there are two ways that increased production and suitable marketing of cut flowers in Nepal can benefit Neapl; by curbing import from India and promoting export to India.

Turmeric is a flowering plant, though it very rarely produces flowers, and is propagated by replanting from root cuttings or rhizomes. Geographical and climatic conditions of Nepal is very suitable for the gross production of Turmeric. Turmeric is also a name of spice. Curcumin in turmeric is most commonly known as the ingredient essential for curry powder, which is highly valued in Asian and Middle Eastern cuisine. In addition, turmeric is also used for its medicinal properties in Asian traditional medicinal practices. It has been shown to be effective in aiding a number of physiological disorders, including, but not limited to rheumatoid arthritis, cough, wounds, and sinusitis. Currently, India is the world's largest producer and exporter of turmeric, which controls

[148] International Trade Center, "Export Potential Assessment in Nepal," accessed 26 March 2016, http://s3.amazonaws.com/zanran_storage/www.intracen.org/ContentPages/20465686.pdf.

[149] Conversion rate for US $ and Nepali Rs for this study has been taken as US $1=100 Rs.

[150] The Kathmandu Post, "Flower Power Reaches New Heights in Nepal," 21 March 2015, accessed 26 March 2016, http://kathmandupost.ekantipur.com/news/2015-03-21/flower-power-reaches-new-heights-in-nepal.html.

60 percent of the market. As a result, India already has in place a vast network of transportation that Nepal can utilize to export the product.[151] Unlike other export potentials discussed in this section, Nepal's export of turmeric should emphasize in using the global network India has established to export Nepali turmeric via India.

Craft and industrial goods

Nepalese craft and industrial goods, especially handmade, homemade, and cottage industries made are very popular in the Western markets including the USA and the European countries. These crafts and industrial goods mainly include: handmade paper, silver jewelery, iron and steel, pashmina, and wool products. At present, India is not one of the major export destinations of these products; however, looking at the attractive market of India, Nepal should consider the possibility. More so, Nepal enjoys tari ff advantages in India in comparison to main competitors of Nepal, which gives Nepalese small scale industries a huge advantage to grow.

Nepali handmade paper is a unique product made from the inner barks of Daphne Papysacea Wall and Daphne Bholua Buch (Thymelaeaceae sp.). It is called 'Lokta' in Nepali. The traditional Tibetan paper-making technique was transferred and developed in Baglung district and other parts of Nepal in the 7th century. The paper is strong and durable and has an inherent natural resistance to worms and insects. It can be used to make high quality greeting cards, shopping bags, packing boxes, stationery sets, diaries and notebooks, folders, photo albums, wrapping papers, photo frames, curtains,

[151] Greg White, "An Introduction to Turmeric and its Export Potentials in Nepal," accessed 25 March 2016, http://saknepal.org/wp-content/uploads/2015/06/White-Greg.pdf.

wallpapers, table and ceiling lamps, calenders, wall paintings, etc.[152]Currently, majority of the Nepalese handmade paper and paper products are exported to the USA, the EU and Japan. Nevertheless, with growing population and increasing number of upper middle class, India in the future may evolve as a good market for Nepalese handmade paper and paper products; however, it will not be possible without the proper plan and promotion strategy on the Nepalese side.

Nepali silver jewelries are completely handmade using traditional processes. Unique pieces of artistic work and design are based on cultural, ethnic, and religious motifs. Since ancient times, Nepalese craftsmen have produced pieces of gold and silver jewelry in di fferentparts of the c
mainly located in Kathmandu valley. Import figures from the destination countries suggest export figure at around US $9.5 million in 2008; however, as per the industry sources, export figure could be as high as US $15 million in the same period. O fficial exports mainly go to the USA, Canada, and several EU markets.[153] There are no o fficial import of silver jewelry registered by India, but it can be assumed that export to India exist and is done informally. If the Government of Nepal can curb the unofficial exports to India and promote official ways to regulate silver jewelery trade, it offers a good sign of expansion in the future.

Modern steel products manufacturing plants based on imported raw materials began to be set up in Nepal since the early 1980s. There are currently around 50 plants in operation with a total capacity of 2 million tons and with an estimated total investment of

[152] Ministry of Commerce and Supplies, 64.

[153] Ibid., 69.

more than US $100 million. Most of the plants serve domestic market requirements. Around ten of the largest plants also sell their products to India and Bhutan. Since there is no manufacturing of steel in Nepal, the production is based on imported steel coils, steel sheets, wires, etc. Gross export of steel products in 2008 was around US$150 million; leaving aside minor portion of export to Bhutan, almost all trade, both imports of raw materials and exports, was with India.[154] Lots of things have been changed since 2008 and that have made India a much larger market today. Indian states, particularly Uttar Pradesh and Bihar, are the most backward as well as rapidly growing economies. Their rising economies, increasing population and urbanization provides Nepal a very good opportunity to extend export quantity of iron and steel products in the future.

Pashmina, commonly known in Nepal as Chyangra Pashmina, is a fine hair fibre from the inner down coat of Capra Hircus, a mountain goat called 'Chyangra' in Nepal, which inhabits the Himalayas in areas above 2,300 m. The fibre is well known for its uniform quality and fineness. It is soft, warm, and very light and is sometimes called 'Diamond Fibre' or 'Soft Gold of High Asia'. Pashmina products, such as shawls, are usually produced using a blend of Pashmina and the cheaper silk yarn. Exports of Pashmina products like shawls, stoles, blankets, sweaters, and other accessories boomed in the late 1990s to record high level of US $80 million in 2000/01, but then declined again to around US $22 million in 2008.[155] In terms of export destination, India was not a significant market of Nepalese Pashmina products in the past, especially because Nepalese Pashmina Products were expensive. Now, with significant increase in India's

[154] Ibid., 73.

[155] Ibid., 80.

upper middle class population, their purchasing power has gone up; however, their willingness to spend and Nepal's marketing strategy, will determine the future of Nepalese Pashmina Products in India.

Tourism

In addition to exporting Nepalese products to India, Nepal can also largely benefit through service industries established in Nepal. These services could be in form of travel and tourism, education, health services etc. In the past, service sector industries in Nepal have played a major role in the development of the country. These industries also promote trade and manufacturing industries.

Travel and tourism has been a major foreign exchange earner for Nepal and its revenues significantly exceed the revenue of each single merchandise export product. With estimated revenue of US $352 million in 2008 and 500,000 visitors, travel and tourism revenue is 37 per cent of all merchandise exports.[156] In 2013, the direct contribution of travel and tourism in GDP increased to US $689 million and directly supported 504,000 jobs.[157]

India has consistently been the largest source of tourists in Nepal. Although the Indians have contributed significantly in all areas of tourism in Nepal, their share can distictly be increased in religious tourism. Nepal is a home of two of the most important religiously sacred places of Hindus and Buddhists. The Temple of Pashupatinath loacted

[156] Ministry of Commerce and Supplies, 89.

[157] World Travel and Tourism Council, "Travel and Tourism: Economic Impact 2014 Nepal," accessed 26 March 2016, http://www.wttc.org/media/files/reports/ economic percent20impactpercent20research/countrypercent20reports/nepal2014.pdf.

in eastern outskirt of Kathmandu on the banks of Bagmati River is considered as the most important temple dedicated to lord Shiva.[158] As per the National Census Report 2011 of India, the number of Hindus living in India is 966 million;[159] if Nepal can attract even 0.1 percent of them annually, it will be more than total toursists arrival of 2012; which was, 803,092.

Nepal is also a home to Lumbini; the birthplace of the Lord Buddha. Lumbini, is the Mecca of every Buddhist, being one of the four holy places of Buddhism. It is said in the 'Parinibbana Sutta' that Buddha himself identified four places of future pilgrimage: the sites of his birth, enlightenment, first discourse, and death.[160] Presently, 8.4 million people of India follow Buddhism.[161] More importantly, the Buddha is also considered as one of the ten reincarnations of Lord Vishnu in Hinduism,[162] which makes the Lumbini an important destination for Buddhists as well as Hindus. Together these two religious shrines offer a very bright possibility of increasing religious tourists in Nepal.

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[158] Nepal Tourism Board, "Pashupatinath Temple," accessed 26 March 2016, http://www.pashupatinathtemple.org/.

[159] First Post, "India has 79.8 Percent Hindus, 14.2 Ppercent Muslims, says 2011 Census Data on Religion," accessed 26 March 2016, http://www.firstpost.com/india/ india-has-79-8- percent-hindus-14-2-percent-muslims-2011-census-data-on-religion-2407708.html.

[160] "Lumbini-Birth Place of the Buddha," accessed 26 March 2016, http://www.buddhanet.net/e-learning/buddhistworld/lumbini.html.

[161] First Post, "India has 79.8 Percent Hindus, 14.2 Ppercent Muslims, says 2011 Census Data on Religion."

[162] "Lord Buddha was an Avatar of Vishnu," accessed 26 March 2016, http://hindudharmaforums.com/showthread.php?2248-Lord Buddha-was-an-Avatar-of-Vishnu.

Healthcare Services

There is no doubt that international trade in health services will gain importance in the future. With ageing populations in rich countries and steadily increasing health care costs, more and more people are seeking health care services abroad. Several countries, for example Thailand or India, are already attracting large numbers of foreign patients. Whether this will become a significant export sector for the global consumers remains a question; however, the conditions in particular reference to India, offers a huge possibility. Indian states of Uttar Pradesh and Bihar, being one of the most populous as well as the backward states of India, have been sending patients to Nepal in the past. On the flip side, Nepalese are also receiving health services in India. Some Indian health providers have opened hospitals in Nepal, with some Indian doctors and nurses working in these hospitals.[163] In healthcare sector, Nepal has two primary possibilites in regards to India: attracting Indian investment in opening healthcare facilities in Nepal and attracting Indian patients to Nepal for healthcare.

Despite numerous problems in the healthcare sector, Nepal has at least two significant advantages: a tradition of Ayurvedic medicine and a moderate climate. The climate makes it very suitable for Indian medical colleges to open branches in Nepal. Nepal does not have a developed healthcare sector that can provide services according to international standards, except may be in a few institutions. The existing trade is mainly local trade across the border, where Indians living relatively close to the border and often with personal links to Nepal seek treatment in Nepalese health institutions. Ayurvedic

[163] Ministry of Commerce and Supplies, 105.

medicine could be a niche in which Nepal can become more successful.[164] The export prospect of healthcare sector is not very bright at present if we look at it from the perspective of attracting international healthcare seekers. However, in particular reference to bordering Indian States, Nepal posses a very good omen of increase.

Education Services

Nepal is not widely regarded as an exporter of education services, but rather as an importer: much more Nepalese students are studying abroad than foreigners studying in Nepal. However, exports in education services do take place and the question whether Nepal has a significant potential to become a well-recognized "education exporter" has already been raised. Two main factors seem to support education export from Nepal. First of all, subsidiaries of Indian medical schools have opened up in Nepal. They primarily cater to Indian students who seek to eventually get access to the Indian medical system, but studying in India might be more expensive or impossible due to limited seats for medical students. Second, compared to many places in India, Nepal o ffers a natural advantage in terms of its geography and climate. The hilly environment in Nepal is similar to that of Darjeeling and Dehradun, the traditional education service zones of India, indicating a potential to replicate such educati on servicing zones in Nepal. Lower living costs are also an advantage.[165]

Numbers obtained from medical colleges during the fieldwork only suggest that there are currently around 1,100 Indian students studying for medical degrees in Nepal,

[164] Ibid., 106.

[165] Ibid., 109.

and 250 students from third countries. Subjective analysis indicate the possibilities of 'export of education' in Nepal but no quantitative assessments can be made about the export prospect. Nevertheless, there is potential for education exports in areas that are linked to Nepal's history and culture such as religious or language studies. For the remainder, the potential depends a lot on the Indian market and how Nepalese schools compare with those in India in terms of access, costs, quality and whether the degrees are recognized in India. If Nepal becomes competitive in all of these areas, particularly regarding the recognition of degrees, then there could be a large potential for Indian students (and colleges) to move to Nepal.[166]

What restricts Nepal to take benefits from India's economic progress?

It is a well known fact that India's economic progress offers many opportunities to Nepal to realize benefits from. It is also equally known fact that Nepal is trying to take benefits from the economic rise of India. Unfortunately, it is also a matter of fact that Nepal has not been able to materialize possible benefits from the rise of India. With these facts, it is not hard to know that something somewhere is not going right; something is impeding Nepal's possibilities to benefit from India's rise. Some of these obstacles are internal in nature that can be solved by Nepal; whereas, some issues are external in nature and need bilateral understanding and cooperation with India. There are also some impediments that are geographical in nature and cannot be changed. The following paragraphs will try to dig into those obstacles.

[166] Ibid., 111.

Financial habits and capital formation

Capital formation is an important factor for economic development process. The process of capital formation needs to go through different phases - saving, financial institution for the mobilization of saving and investment in capital goods are basic requirements of capital formation. Establishment of financial institutions in the remote and backward areas to collect capital and invest in productive sector is an urgent need for developing countries like Nepal. Establishment and expansion of such institutions can help the development process through mobilizing financial resources. It is also equally remarkable that one fourth of the population lives below poverty line whose propensity to consume is high leading to almost zero saving. Even the affluent segment of the society may not have strong motive to save and invest, particularly in contemporary Nepal. Financial resources are often invested in unproductive sectors such as purchasing gold, jewelry or investing in real state. Furthermore, money is frequently used to meet cultural and social requirement to maintain higher status in the society.[167]

Size of market and foreign trade

The market size affects productivity since large size of markets allows firms to produce in large scale. In the era of globalization, international market has become a substitute for domestic market. There is empirical evidence showing that open trade is positively associated with development. The perfect market competition both at domestic and foreign markets are important for driving market efficiently and thus enhancing business productivity by ensuring production of goods and services by the most efficient

[167] Subedi, 2.

firms. Recent Financial Crisis, 2008 is an evidence of high degree of interdependence of the economies worldwide. Specialization and division of labor increases productivity. This also helps large scale production. Both agricultural and industrial development is impossible in the absence of division of labor and specialization. The market with small size does not provide incentive to the division of labor, specialization and also to the large scale production. Nepal is facing this problem due to small domestic market. The share of export and import in total foreign trade remains 14.1 percent and 85.9 percent respectively.[168] In the same way, trade balance is one of the major challenges of development in Nepal. A large amount of foreign currency has been needed to import consumer goods rather than it in investment and capital formation.[169]

Physical infrastructure

Extensive and efficient physical infrastructure base is an important requirement for ensuring the effective functioning of an economy. A well-developed infrastructure reduces the effect of distance between regions, integrating domestic market and connecting it at low cost to the markets in other countries and regions. Likewise, the quality and extensiveness of infrastructure significantly impacts economic growth and reduces economic inequalities and poverty in a variety of ways. For example, telecommunication network helps for a rapid and free flow of information, which increases overall efficiency by helping to ensure that business can communicate and

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[168] Ministry of Finance, *Economic Survey Fiscal Year (2014/2015), Government of Nepal*, accessed 27 March 2016, http://mof.gov.np/uploads/document/file/Final percent20Economicpercent20Survey percent202071-72percent20Englishpercent20 (Final)_20150716082638.pdf.

[169] Subedi, 3.

decisions are made by economic actors taking into account all available relevant information. Effective modes of transport such as roads, railways, ports and air transport enable entrepreneurs to get their goods and services to market in secure and timely manner. Furthermore, due to lack of free flow of inter-regional transportation within Nepal, apple in Jumla (a remote district in Western Nepal) has damaged while Nepal is importing large quantities from neighboring countries. Regular supply of electricity helps to run the business and factory regularly and contributes for efficient production.[170]

Agricultural development

Agriculture sector contributes more than one third to Nepal's GDP and also provides employment to more than two thirds of its population. However, the government has failed to ensure smooth supply of fertilizer, seed, pesticides, agricultural loan, research and extension services, etc. to farmers. The agricultural research and extension programs have so far failed to reach the large majority of farmers. High cost of borrowing from financial institutions also affects agriculture. The agriculture sector has not been modernized. Irrigation facilities are provided in a very limited area to dampen agricultural production and productivity.[171] Because of these reasons, Nepal is not able to produce agricultural products in a large quantity to exploit Indian market. It is also a tough task to raise economic growth rate by raising agriculture GDP in a situation where average growth rate of this sector in the last 10 years has just been 2.9 percent.[172]

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[170] Ibid., 3-4.

[171] Ibid., 4.

[172] Ministry of Finance, xxxiv.

Industrial development

Industries play an important role in the economic development of a country. Nepal has low development of medium and large scale industries. The share of contribution of this sector in GDP is 14 percent only. Even small scale industries are not well developed due to lack of raw materials and insufficient financial resources. They are also facing market competition due to the liberal policy adopted by the government. This is the reason why more people are concentrated in agricultural sector though it is less productive. Poor industrial relation between the industrialist and labor is the main hindrance for industrial development.[173] The situation of production oriented industry sector could not achieve the desired growth as a result of unending political transition, uneasy trade relation, persistent energy crisis, weak infrastructure, and failure to improve investment environment as expected. The task of increasing contribution of manufacturing sector to GDP by enhancing investment environment is getting more complex.[174]

Political factors

Political factor is another important element for development. Political stability creates a favourable condition for the implementation of plans and projects. The rapid economic growth rate of the developed countries can be taken as examples of political stability. Foreign investors in developing countries do not feel secured and also lose confidence in the absence of investment friendly environment due to volatile situation

[173] Subedi, 4.

[174] Ministry of Finance, xxxiv.

created by political instability. Frequent changes in the policies and programs due to unstable government adversely affect investment friendly climate and discourages probable investors. In case of Indo-Nepal economic cooperation, Nepal's political instablity creates problem in two ways: it undermines Nepal's ability to produce goods and services to export in Indian markets and also discourages probable Indian investors to invest in Nepal.

Ghost of the past

Nepal and India have signed many bilateral treaties. Some of these treaties, as described in 'Indo-Nepal Relations' in previous pages, Nepal considers as unequal in favor of India. Until today, the Treaty of Peace and Friendship concluded between India and Nepal on 31 July 1950 forms the basis of Indian policy towards Nepal.[175] In the past, various governments in Nepal have tried to amend some of the unequal clauses of the treaty; but none of the attempts succeeded. In addition to that, Nepal has bitter experience of suffering from economic blockade imposed by India in 1989 that lasted for almost a year[176]. India also imposed economic blockade to Nepal in 2015, following Nepal's promulgation of new constitution in September. The blockade lasted for almost five monts. Because of all these bitter experiences, Nepal has not been able to come out of the ghost of the past relations. Nevertheless, Nepal needs to reach in consensus with India in many economic aspects of mutual benefit that requires signing of further treaties and agreements.

[175] Malone, 117.

[176] Ibid.

India's consent

Bilateral relations cannot be established unilaterally; it has to satisfy the best national interests of both countries. In the past, India has always tried to keep Nepal under its security influence and reacted against Nepal's attempt to strengthen relations with other countries; especially, with China. Nepal, on the other hand, always independent and proud nation, wants to exercise its rights without foreign interference. Impacts of this conflicting priority, have been evident in number of occassions. For example, Nepal has been attempting to sign Power Purchase Agreement with India that will guarantee that India will buy all excess energy produced in Nepal; however, India has shown little willingness in signing the agreement. Although India is facing huge energy shortfall it is hesitating to sign agreement because it wants to keep Nepal under influence in exchange of possible economic benefit that Nepal will receive. Therefore, winning India's consent on bilateral issues are important for Nepal.

Geographical factors

Unlike other factors, geographical factors cannot be changed by nations; they have to adjust to it. Nepal's geopolitical location has varied impacts on Nepal's economic development; particularly Nepal's potentials of benefitting from the economic rise of India. On one hand, landlocked location of Nepal has been a geographical handicap for Nepal, because it is always difficult, costly, and time taking to establish trade relations with third countries; on the other hand, Nepal can utilize its strategic location between China and India to act as a dynamic bridge between these two rapidly rising economies.

Until today, for various reasons, Nepal has not been able to utilize its strategic location to its advantage. First, every country has to adjust to its geography and be able to

make the most out of it; Nepal's geography does not allow easy infrastructure development. Nepal can only act as a dynamic bridge between two neighbors when it can develop adequate infrastructures that allow smooth handling of trade between these nations. Second, in terms of natural resources, nature does not provide every country with everything; one has to make the best utilization of whatever it has. So far, Nepal has not been able to utilize its resources. From geographical point of view, Nepal certainly has strategic location, but it is worthless unless Nepal is able to develop bare minimum infrastructures and facilities to make good utilization of it.

Natural calamities are other aspects that are not in human control. Sectors including tourism, infrastructure, real estate, agriculture and finance have received serious impact from the recent devastating earthquakes. These earthquakes are estimated to have caused damage equivalent to billions of dollars. Nepal is also very prone to natural disasters like, flood, famine, wildfire etc. that are causing damage to existing economic set up and complicating the development process.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

Conclusion

Nepal is a country of enormous resources, capabilities, and possibilities; a perfect mix to be a developed country. Lately, it also has sensed a very good opportunity of economic development in economic progress of India that provides a huge market for probable goods and services of Nepal. However, until today, Nepal is far from materializing its resources and capabilities to the level where it can achieve economic development. India and Nepal share very close ties between the governments as well as between the people since centuries. Although, the mutual relations between India and Nepal have experienced continuous upheaval, they have always been successful to come out of misunderstanding and solve problems by themselves to restore the spoiled relations. In the recent past, the bilateral relations have oscillated like never before to create unprecedented suspicion with each other. However, even at the worst time, leaders and people of both countries consistently advocated the need for mutual settlement of dispute and worked together in restoring relations giving the people of both countries new signs of hope.

India's vast population, hunger for energy, growing industries, and rising economy provides wealth of opportunities. Although, any nation with capabilities can draw benefit from India's rise, Nepal, because of its geographical proximity, social and cultural ties, and historical relationship, has more probabilities to do so. More so, as discussed in the previous chapter, the resources and capabilities Nepal possess have huge demand in India. On the flip side, seizing on the advantages generated by the rise of India

pose a unique challenge to Nepal because of internal, external and geographical impediments. Therefore, it is in the good interest of Nepal to lay out and religiously follow the strategy that focus on achieving and maintaining good mutual relations with India and exploit the opportunities provided by their economic rise.

Recommendations

The paper is recommending a strategy to the Government of Nepal, where it visualizes: ends as, 'Nepal is a developed economy having harmonious economic as well as social relations with India based on mutual benefit and trust'. Ways and means to achieve this end are mentioned below in subsequent paragraphs.

Achieve political stability

As Arun Sahgal noted in 'Nepal: continuing imbroglio', "Nepal should be politically stable and maintain strong political, economic and social ties with India"[177], it is absolutely necessary for Nepal to achieve political stability within the country before attempting any other steps towards materializing benefit from the economic progress of its neighbour. The internal politics of Nepal is so unstable that between 2006 and 2015, the Office of the Prime Minister of Nepal hosted eight different prime ministers. It has been clear from the past experiences of Nepal that whenever a government tries to introduce a new economic policy it has to go through series of difficulties. Foremost, it was very difficult to pass through the parliament with required vote. Second, even if it is passed, it faces difficulties in implementation because most of the time government that passes policies does not remain in power to implement.

[177] M. Thapa, 73.

Improve internal security situation

Until today Nepal has not been able to offer a security situation where international investors can invest their money with peace of mind. There have instances in the past, when international projects were physically attacked and later on closed due to the security reasons. There are also tendencies among people of Nepal that wherever location of mega projects are decided, people of those areas come of with lots of demands for benefit of the people and the area. When unsatisfied by the responses of the government or the project management, the people will create security problems and would not let the projects run smoothly. The government of Nepal must guarantee the security of men and equipment involved in the projects.

Improve mutual relations with India

Indo-Nepal relations have experienced many upheavels in the past. Relations deterioriate due to India's attempt to have accessive control over Nepal, which is against Nepal's proud history of being ever independent nation and also due to lack of trust between two countries; because of which, Nepal lean towards China to counter Indian influence; which further spoil the relations. Now is the time that Nepal should understand own geographical realities and step forward to improve mutual relations with India. In doing so, Nepal must ensure that there will be no activities in Nepal that can have possible security concerns to India; and, more importantly, keep India out of internal issues of Nepal.

Improvement of financial habits of the people

Economic knowledge and financial awareness of Nepalese people are very low. People do not have habit of saving and investing for capital formation. Most people still have dream of owning land and house as their first priority. They are either ignorant or too reluctant to invest money in productive sectors instead of real state. People still spend major portion of their lifelong income in showing off during social traditions; like marriage. In rural areas, people have very little knowledge of and exposure to, banking services. Therefore, government should focus on educating people on financial habits.

Development of physical infrastructures

Physical infrastructures, especially road, airport and railroad are considered as a minimum basic requirement for development. In case of Nepal, these infrastructures, either do not exist or are in very poor condition. It only has one international airport. Nepal is a mountainous country and most of its natural resources are found in remote areas. Similarly, most of tourist attractions are also located in remote areas, far from town centers and road heads. Therefore, the strategic focus of the Government of Nepal should recognize the value of physical infrastructures in economic development of Nepal.

Ensure ease of business

Nepal is not a very attractive investment destination in terms of ease of doing business index. In the past, lot of projects have complained about very slow administrative procedure of Nepal. Not much have been achieved to improve on this aspect; Nepal still is infamous for slow bureaucratic speed. The Government of Nepal

must focus on strategy that will ensure passing bureaucratic hurdle quick and smooth and also make sure that all possible foreign investors are informed about the progress.

Focus export on comparative advantages

Not all products and services that Nepal can develop have good export potential or comparative advantage. So far, Nepal has experienced comparative advantages in agro products like sunflower seed, turmeric, large cardamom, ginger, herbs etc. and manufacturing products like handwoven carpets, leather products, jute, paper, textiles, pashmina etc. Government of Nepal should place priorities in producing these goods in order to enjoy comparative and competitive advantage in Indian market.

Upgrade tourism industry

Nepal has huge possibilities to be developed as a major tourist destination. Beautiful Himalayan landscapes that include highest place on earth, can be turned into a hub of adventure activities. Lush green forests with rich wildlife can attract nature lovers. Similarly, religious sites such as Lumbini, and Pashupatinath Temple can attract hundreds of thousands of devotees. Although, Nepal already has minimum services and facilities in these touristic areas, those will not be sufficient to accommodate increased tourists. Moreover, Nepal still has many unexploited places that can be developed as a good tourist attractions. Therefore, the Government of Nepal should develop infrastructures and strategy keeping India’s growing middle class in view and do marketing accordingly.

Develop Renewable energy projects

Nepal has a massive comparative advantage on hydropower. As discussed in the previous chapter, Nepal's internal demand of electricity is very less in comparison to it's production potential, which gives Nepal an opprotunity to export. While planning to export excess energy to India, Nepal should also focus in utilizing power potential of solar and wind energy. These alternative sources of energy are important because they can be developed in rural areas of Nepal and consequently save huge expenses required to build transmission line and also help maximize export potential of hydroelectircity. Favorable factor on this regard for Nepal is, India's demand for power is ever increasing and they are not self sufficient to fulfill it. However, to gain comparative advantage from exporting hydropower, Nepal needs large projects to achieve economies of scale by lowering development cost per unit.

Power purchase agreement (PPA) with India

Nepal has a very huge potential to export renewable energy to India and India is also willing to buy energy from Nepal. However, Nepal needs market security for its excess production of power. Although India needs excess power generated in Nepal, she is well aware of the fact that Nepal does not have viable alternative market for her excess energy and it will be easier to bring Nepal under her terms. In this regard, India will do everything to use this situation to her advantage. Therefore, it is important from Nepalese point of view to sign power purchase agreement with India in order to attract investment as well as provide security to the investment.

Develop healthcare and education facilities

Until today, Nepal is not an attractive destination for Indian population to receive healthcare and education services. However, significant number of Indian citizens, particularly living close to borders, have been visiting Nepal for healthcare services as well as university education. Keeping India's demand for healthcare and education services in a view, the Government of Nepal should make the best use of beautiful geographic and climatic conditions of Nepal to develop it as a hub of healthcare as well as education services.

Retain working age population

Last but not least, the Government of Nepal must place focus on retaining the working age population that are working as a migrant workers in foreign labor market in minimum wages and facilities. This group of people also includes Nepalese students and intellectuals, who are frustrated with the internal situation of Nepal and does want to return back.

Nepal is a country of huge possibilities. It has everything that requires to become a developed country, and the recent rise of its neighbors, especially India, provides Nepal the opportunity that can soon take Nepal to the direction of achieving that status. However, Nepal must be able to overcome the impediments that restricts Nepal from realizing benefit from the rise of the Indian economy. In doing so, Nepal must maintain harmonious relations with its neighbors.

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